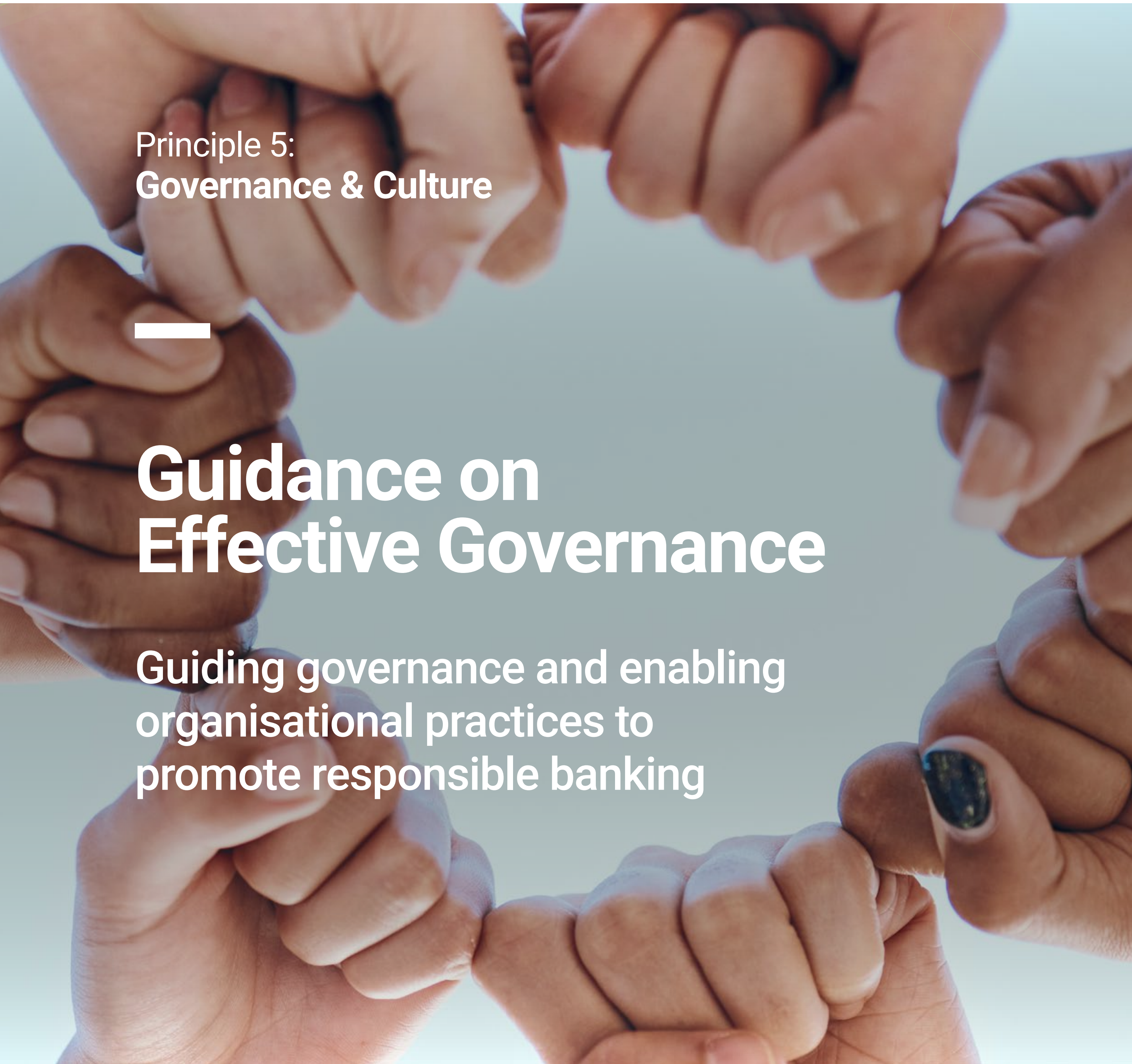
Principles for Responsible Banking: Guidance for banks

UN environment programme | finance initiative

Principles for Responsible Banking



Principle 5:
Governance & Culture

Guidance on Effective Governance

Guiding governance and enabling organisational practices to promote responsible banking

Disclaimers

Suggested citation: UN Environment Programme Finance Initiative (2024). Guidance on Effective Governance, Geneva.

Cover photo: elements.envato.com/user/Farknot/photos

Positioning statement

The content of this guidance does not constitute advice to members of the Principles for Responsible Banking. The choice to adopt guidance, best practice tools or actions is always at the discretion of individual banking members. This guidance represents recommendations for effective practice and is not prescriptive as to actions or decisions to be taken by members, including when and how they are expected to address sustainability topics. Members set and design their own individual targets, strategies, and policies, making their own decisions as designed and guided by their business activities, governance frameworks and country context.

Further, any views expressed in this guidance do not necessarily represent the practices and views of Working Group or Core Group members who assisted in the preparation of the guidance. Participation in the PRB 2030 project and its working groups should not be construed as any form of collective or coordinated action.

Acknowledgements

The UN Environment Programme Finance Initiative (UNEP FI) secretariat (the secretariat) has led on the development of this guidance together with a working group of banks and with guidance from the Civil Society Advisory Body. Gratitude is extended to all contributors for their expertise in bringing this report to life.

Lead UNEP FI author

Laura Lightbody
Governance & Legal Counsel

UNEP FI contributors

Johanna Dichtl, Puleng Ndjwili-Potele, Flora Petrucci, Angela Joo-Hyun Kang, Hina Majid, Alizah Beg, Elodie Feller, Joana Pedro and Romie Goedicke den Hertog, Ana Sena, Careen Abb, Layalee Ramahi, Mabel Paola Gonzalez Pacheco, and Daniel Bouzas Luis.

The secretariat extends a special thanks for the contributions made by the PRB Civil Society Advisory Body members. The secretariat also thanks external contributors from the Chartered Banker Institute (Giles Cuthbert) and the Principles for Responsible Investment (Sebastien Akbik) for their valuable insights included in this report.

This guidance is based on discussions and work undertaken in the **PRB 2030 Core Group**, a working group comprising 27 signatory banks of the **Principles for Responsible Banking**. Together with the UNEP FI, this Core Group of banks was tasked with exploring the strategic development of the PRB framework, recognising the changing context since the PRB was launched in 2019 and the need to support positive progress.

This guidance is endorsed by the Chartered Banker Institute, a global professional education body for bankers. The Chartered Banker Institute, the United Nations Environment Programme Finance Initiative (UNEP FI) and the Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH (GIZ) together established the PRB Academy to provide training on responsible banking to the entire sector. For further information, see Chapter 7 (Purpose and knowledge).

Contents

Executive summary

Against a rapidly evolving sustainability landscape, robust governance and internal culture are indispensable for organisations in navigating the technical, commercial and ethical complexities.

Sustainability governance, that is the organisational structures, systems and processes put in place to govern environmental and social strategies, plays a critical role in supporting sustainability progress and especially in overseeing delivery against sustainability commitments. Aligning internal operations and ways of governing with such commitments is an important step, promoting accountability and credibility.

Closely connected to **Sustainable Development Goal (SDG) 16: Peace, Justice and Strong Institutions**—institutional strength and soundness are elements which act to bind businesses to the communities in which they operate and serve.

This guidance has been specifically developed by banks for banks together with UNEP FI and importantly with valuable input and advice from civil society organisations. It is designed to support and enable implementation of the Principles for Responsible Banking (PRB or Principles, used interchangeably throughout), specifically focussed on **Principle 5: Governance and Culture**.

Banks are facing a multitude of new sustainability regulation, while also balancing legal challenge connected with this agenda and increasing societal expectations. Drawing on key regional and global regulation, relevant international standards and best practices from signatories of the PRB, the guidance aims to help by:

- Inspiring and informing banks on effective sustainability governance practices
- Helping banks to navigate the significant internal transformation required to translate their sustainability commitments into action
- Supporting banks in approaching compliance with relevant governance-related sustainability standards and guidelines.

Following consultation with a working group of PRB signatories, the PRB Civil Society Advisory Body and other experts, a sustainability governance model for banking has emerged defined by five key pillars:

Responsible leadership	**Governance design**	**Sustainability integration**	**Purpose & knowledge**	**Stakeholder engagement**

Figure 1: Five key elements to promote good sustainability governance practices

Guiding effective practices, case studies and supporting tools are shared to equip banks to be better prepared operationally to implement their PRB commitment and broader sustainability strategies, and navigate the associated technical, commercial and ethical complexities.

This guidance recognises that governance regimes and structures differ and aims to celebrate the diversity of good practices available. Geographical location, size, scale and resources available will all dictate a bank's governance structure, in additional to relevant corporate laws and regulation.

Through their PRB commitment, signatories agree to take a leadership role and use their products, services and relationships to support and accelerate the fundamental changes in their economies and lifestyles necessary to achieve shared prosperity for both current and future generations. The expectation is therefore that PRB signatories, wherever they are located, aim to be responsible banking leaders against their own geographical context and relevant confines, including via their actions on governance and culture.

1. Introduction

Context

Being at the heart of every major national economy, banks play a pivotal role in supporting sustainable development and the SDGs (as enshrined in Principle 1 of the PRB). As financial intermediaries, they have a purpose to help develop sustainable economies and to empower people to build better futures. Banking is based on the trust banks' customers and wider society put in them to serve their best interests and to act responsibly.

Over 345 banks worldwide have already committed to responsible banking through the UN-convened PRB, a unique framework for promoting alignment between signatory banks' strategy and practice and the vision society has set out for its future in the SDGs, the Paris Climate Agreement and other relevant global agreements and national/regional frameworks.

This guidance has been designed by and for the banking sector specifically to support sustainability implementation.

An enabling role

While the Principles are centred around sustainable development and the SDGs, governance is seen as a key enabler. A bank's governance and culture are fundamental to how it delivers on its responsible banking commitments. Aligning internal operations and ways of governing with such commitments is an important step towards accountability and credibility. They can be powerful tools to help institutions navigate the complex ethical, economic, environmental, and social dilemmas associated with the sustainability agenda.

Research shows that strong performing governance frameworks have a bearing on risk management and business opportunity outcomes. We also know that good governance systems support more consistent delivery against organisational objectives and targets. Reporting structures and broader organisational design are primary differentiators of an organisation's likelihood to meet their sustainability targets. Against challenging market conditions and tensions, it is more important than ever for institutions to reinforce their commitments through action.

Principle 5: Governance and Culture

Through their PRB commitment, signatories agree to take a leadership role and use their products, services and relationships to support and accelerate the fundamental changes in their economies and lifestyles necessary to achieve shared prosperity for both current and future generations. They also commit via their Chief Executive Officers to the ambitions set out in the following six Principles:

Principle 1:
Alignment

We will align our business strategy to individuals' needs and society's goals, as expressed in the SDGs, the Paris Agreement and relevant national and regional frameworks.

Principle 2:
Impact & Target Setting

We will continuously increase our positive impacts while reducing the negative impacts on, and managing the risks to, people and environment resulting from our activities, products and services. To this end, we will set and publish targets where we can have the most significant impacts.

Principle 4:
Stakeholders

We will proactively and responsibly consult, engage and partner with relevant stakeholders to achieve society's goals.

Principle 3:
Clients & Customers

We will work responsibly with our clients and our customers to encourage sustainable practices and enable economic activities that create shared prosperity for current and future generations.

Principle 5:
Governance & Culture

We will implement our commitment to these Principle through effective governance and a culture of responsible banking.

Principle 6:
Transparency & Accountability

We will periodically review our individual and collective implementation of these Principles and be transparent about and accountable for our positive and negative impacts and our contribution to society's goals.

Figure 2: The six Principles under the UN Principles for Responsible Banking

Through **Principle 5: Governance and Culture**, signatories undertake to implement their commitment through effective governance and a culture of responsible banking. In line with the PRB Guidance Document, banks are required to develop governance structures that enable and support effective implementation of the Principles. As per the Banking Theory of Change,[1] this includes having appropriate structures, policies, and processes in place to manage their significant impacts and risks and achieve established sustainability and impact targets.

Although there is evidence that PRB signatories have made positive progress in establishing basic governance structures, with an impressive 98% of member banks having

1 Referenced within the UNEP FI Impact Protocol available at: unepfi.org/impact/impact-protocol/

integrated sustainability oversight into their governance[2], further support in embedding responsible banking commitments across the organisation was identified as a need through membership consultation.

Interconnections with other Principles

Governance is a foundational practice which should guide, oversee and challenge banks' sustainable journeys, and has a broad application across each of the other five Principles as identified below.

Principle 1 (Alignment) requires signatories to align their business strategy to be consistent with and contribute to individuals' needs and society's goals, as expressed in the Sustainable Development Goals, the Paris Climate Agreement and relevant national and regional frameworks. Governing bodies play a critical role in establishing the bank's purpose or mission linked to such frameworks and agreements.

Under **Principle 2 (Impact & Target-setting)**, signatories undertake to set and publish targets where they can have the most significant impacts. Establishing oversight and accountability for impact management is encouraged via the UNEP FI Impact Protocol and appropriate integration into core policies and processes is one of the four action categories identified as part of the Banking Theory of Change. Further, it is important that decision-makers can understand the relevant impact areas, support connected targets and be able to assess and oversee the associated sustainability risks and opportunities relevant to their bank.

Under **Principle 3 (Clients & Customers)**, signatories agree to work responsibly with their clients and customers to encourage sustainable practices and enable economic activities that create shared prosperity for current and future generations. An important enabling tool is learning and development frameworks, including product development processes and business controls which support and empower client and customer-facing teams to deliver on such a commitment.

Principle 4 (Stakeholders) requires signatories undertake to proactively and responsibly consult, engage, and partner with relevant stakeholders to achieve society's goals proactively and responsibly. Chapter 6 focuses primarily on employees as an important, internal stakeholder group while Chapter 7 guides banks more broadly on promoting stakeholder voices within their decision-making frameworks.

Under **Principle 6 (Transparency & Accountability)**, signatories commit to periodically reviewing their implementation of the Principles and to being transparent about and accountable for their positive and negative impacts and our contribution to society's goals. Governing bodies play an important role in overseeing implementation progress and sustainability reporting, including the connected control frameworks such as assurance, to promote business integrity. Aligning internal operations and ways of governing with such commitments is an important step towards accountability and credibility.

2 United Nations Environment Programme (2023). Biennial Progress Report—Responsible Banking: Towards Real-world Impact. Geneva.

This guidance

This guidance is designed to support PRB signatories in acting on **Principle 5** of the PRB framework. Chapters 7 and 8 also speak to Principle 4—Stakeholders, where guiding practices to promote stakeholder voices within banks' operations and their governance systems are included.

It will be of interest to bank board directors and leadership teams, as well as internal sustainability, human resources, governance and investor relations teams. Many elements will also translate beyond banking to other organisations seeking to build sustainability governance systems.

The guidance draws on effective practices seen amongst PRB signatory banks. It also integrates sustainability governance recommendations contained within leading sustainability standards and guidance as referenced. Sustainability-linked disclosure frameworks are important sources currently guiding sustainability governance practices globally. These are referenced throughout this guidance to support banks' in designing governance models which meet the respective and related recommendations in the Task Force for Climate related Finance Disclosures (TCFD) and the Task Force for Nature related Financial Disclosures (TNFD) recommendations, and the relevant International Sustainability Standards Body (ISSB) standards.

Spotlights showing effective practice examples from current PRB signatories are included throughout the guidance. Also included are "supporting tools" from UNEP FI and partners to assist with implementation.

The importance of context and ongoing review

Banks' sustainability governance systems are highly susceptible to geographical location, country context, size and each individual bank's sustainability journey in terms of maturity level. It is recognised that global governance regimes, systems of corporate law and banking structures differ, with some regulatory regimes being advanced while others are still developing. It is further recognised that ownership structures can dictate a bank's governance frameworks, particularly for state-owned banks or those with majority state ownership where there may be limited scope to adjust elements such as remuneration and board composition.

Taking inspiration and diverse practices from banks across the globe, this guidance does not seek to be prescriptive, but rather informative and inspirational. Individual banks should interpret this guidance against their own country/regional context and regulatory arrangements and restrictions. As PRB signatories, they are expected to be leaders within their own geographical context, considering their size, scope, structure and resources.

Governance and organisational arrangements should be regularly reviewed to respond to the changing internal context and/or external environment. In the context of sustainability, governance structures and systems will naturally mature as knowledge levels grow, regulatory regimes evolve, and sustainability becomes further embedded within the organisation.

2. Defining sustainability governance

Defining scope

Governance, culture, and organisational design are terms which can carry broad and varied meanings, and in many regions are associated with long-established rules, regulation and corporate law. Less mainstreamed however is the concept of sustainability governance.

Linked to SDG16: Peace, Justice and Strong Institutions—and building on the Transformational Governance philosophy developed by United Nations Global Compact (UNGC) stemming from their SDG 16—Business Framework—sustainable or sustainability governance is about strengthening governance with respect to managing environmental and social risks and opportunities. This guidance is centred around the role and practice of sustainability governance in banking specifically. To genuinely pursue a sustainability strategy and deliver on the PRB commitment specifically, internal adjustment, reorganisation and strengthening will be necessary..

Key elements of sustainability governance

The UNGC's Transformational Governance philosophy is anchored in a principles-based approach that calls on businesses to be more accountable, ethical, inclusive and transparent to drive responsible business conduct. Unlike traditional corporate governance and compliance, which focusses on laws and regulation, Transformational Governance asks not just what is legal but also what is right, offering a more holistic view and guide for businesses.

Building on the transformational governance philosophy and following consultation with PRB signatories, civil society organisations and expert groups, the following five key elements emerged as areas where banks can take action to promote good sustainability governance practices:

Figure 3: Five key elements to promote good sustainability governance practices

Sustainability governance model

Building on observed effective practices in the industry, expert insights and the sources referenced, we can define a sustainability governance from a banking perspective as a system which **promotes controlled progress, business integrity and is responsive to stakeholder voices**. Building on the five key elements referenced above, Figure 4 below develops and further defines sustainability governance using a five-pillar model. Each pillar is explored further in the chapters which follow, with corresponding spotlights covering effective practice examples and supporting tools for banks.

Sustainability governance model **Promoting controlled progress, business integrity and responsiveness**				
Responsible leadership	**Governance design**	**Sustainability integration**	**Purpose & knowledge**	**Stakeholder engagement**
Board composition, leadership development and reporting support a diverse and informed board capable of overseeing the sustainability agenda	Sustainability governance framework design supports clear roles and responsibilities, with remuneration incentives aligned to sustainability commitments	Sustainability impacts, risks and opportunities are embedded within the bank's core strategy and management framework	A purpose-led culture aligned to strategic ambition is established and supported, with learning and development on sustainability at the forefront	Customer, investor, employee and civil society voices are championed and promoted within decision-making frameworks and organisational practices

Figure 4: Defining a sustainability governance model for banking

While the pillars have been designed with a natural order in mind, they are not strictly sequential and could be considered and acted on concurrently, depending on institutional progress and/or structures.

Responsible governance and business conduct

It is acknowledged that responsible governance encompasses a much wider set of business practices and conduct, including for example business conduct, human rights, operations, labour rights, bribery and corruption, consumer interests, science and technology and taxation. Regulators and standard setters such as the Organisation for Economic Co-operation and Development (OECD) are already effectively guiding on these areas via for example leading governance frameworks such as the Multinational Guidelines on Responsible Business Conduct (MNE Guidelines)[3] as well as other national and regional rules and regulations.

3 OECD International Multinational Guidelines on Responsible Business Conduct of the OECD mneguidelines.oecd.org/mneguidelines

3. Responsible leadership

It is of critical importance that the bank's board and senior management team have the skills, experience, and information available to be able to safely oversee, guide and, as needed, challenge the bank's sustainability strategy.

Responsible leadership

Board composition, leadership development and reporting support a diverse and informed board capable of overseeing the sustainability agenda

This chapter on Responsible leadership focusses senior governing bodies, that is boards, board committees and also senior management level committees where the day-to-day management responsibilities to lead, deliver, execute and control business strategies and plans often sit. The system of delegation between a bank's board(s) and management team will differ based on geographical location, size, structure and regulatory rules. Management accountability and business governance is further guided on in Chapter 5.

Acknowledging that some regions have adopted a two-tiered board structure (or dualistic governance model) separating supervisory and management functions, references in this guidance to "board" refer to supervisory boards unless otherwise stated. Despite regional differences, a common characteristic of most corporate governance systems is board-level oversight of strategy and risks, which generally include sustainability risks, opportunities and impacts. Responsible banks demonstrate active board oversight of sustainability progress, including delivery on their PRB commitment and action plans.

Below are guiding examples of effective practices to support **responsible leadership:**[4]

- **Board-level approval:** It is recommended that material responsible banking decisions, including those related to sustainability-linked strategic design, target setting, key policy adoption and action planning are escalated to the board-level for approval or at least endorsement/awareness following appropriate management approval.

  See the spotlight below for further inspiration.

4 Note these practices are aligned with the disclosure requirements contained within the TCFD, TNFD and ISSB standards relevant to responsible leadership.

Spotlight: Responsible leadership

Board-level commitment

A member bank's Human Rights Policy received board-level approval after thorough review by the executive committee. The board acknowledged its potential to impact human rights throughout its own operations and business relationships and noted the bank's capacity to influence positive change within their business partners throughout the value chain. During the decision-making process and recognising the improvement journey the bank is on, management undertook to periodically review the bank's human rights issues of the highest concern, to continue to develop its approach to human rights due diligence and to improve transparency and stakeholder communication on the topic through enhanced, annual reporting.

- **Knowledge to guide and oversee**: Decision-makers need to be able to understand, assess and oversee sustainability risks and opportunities relevant to their bank. Building expertise and knowledge at board and senior management levels through ongoing, dedicated learning and development programmes is one effective practice commonly observed. Knowledge building is also important to help recognise the commercial opportunities available as part of the transition to more sustainable business practices and offerings.

  While actively seeking board directors with sustainability experience is now common, talent pool challenges are also acknowledged. Such challenges are particularly acute where regulatory requirements also dictate the need for relevant financial, leadership and governance experience as well as supervisory vetting. Including sustainability skills within skills matrices, monitoring levels of proficiency and supporting board and senior management development are effective practices observed in leading responsible banks. Director development programmes which aim to equip board members with knowledge to allow them to understand the opportunities and challenges related to the sustainability transition, and thus be able to safely oversee progress are encouraged. Board advisors, advisory bodies or board-level champions can also helpfully act in promoting and supplementing responsible leadership, often supported by academic institutions, civil society organisations and/or expert scientific advisors.

  See the spotlight below for further inspiration.

Spotlight: Responsible leadership

Supporting and developing boardroom knowledge

Supplementary to a board-level educational programme provided by both internal business and functional experts as well as in partnership with a leading university, a member bank has established a Climate Advisory Board which acts as an advisory forum to the board and senior management team in relation to their climate transition plan and broader management of climate risks and opportunities including exploring nature and social interlinkages. The Advisory Board consists of internal as well as external experts from leading scientific, academic and civil society organisations providing insights and independent guidance.

- **Championing diversity in the boardroom and beyond:** Diversity of the board is important in cultivating a diverse and inclusive governing body, which is needed to oversee such a dynamic agenda. A diverse and inclusive boardroom and management team promotes broader debate and challenge. Board nomination practices and boardroom inclusion policies which invite diverse backgrounds, underrepresented groups, sustainability experience and growth mindsets are encouraged. Setting and aspiring to meet targets which seek to, at a minimum, increase female and ethnic representation at the board level is encouraged. This can be done at nominations level (for example 50% of the short list of candidates) or at appointment level (50% of appointed board members), depending on the decision-making authority and appointment procedures relevant to the bank.

  Diversity beyond the boardroom is just as critical. Diversity, especially in terms of social groups, backgrounds, and gender, is a vital element that enhances the organisation's capacity to comprehend and champion complex topics such as a just transition. Diverse teams are linked to a stronger commitment to climate goals, increased productivity, and higher levels of innovation, outperforming more homogenous teams. Outside the boardroom, banks are encouraged to take action to foster diverse, inclusive and equitable work environments which promote underrepresented groups. This can be done through organisational targets, such as 50% of leadership roles are female. Leadership roles can be defined with reference to the CEO—for example 40% of CEO-3 level roles—or with reference to job categories—for example 40% of senior manager roles or leadership pipeline roles. This helps to establish a pipeline of diverse, future responsible leaders who can in turn be considered for future board director seats.

  See the spotlights below for further inspiration.

Spotlight: Responsible leadership

Boardroom inclusion policies and practices

A member bank has a publicly available boardroom inclusion policy outlining its commitment to maintaining boardroom diversity and inclusion, and to instilling a leadership culture which is welcoming of a range of experiences, perspectives, views and backgrounds. The board is tasked with setting the right conditions for fostering a diverse, equitable and inclusive workforce and culture. Nominations procedures involve the assessment and ongoing review of skills, knowledge, perspectives, professional and lived experience, thinking styles, gender and ethnicity, as well as the balance of these attributes amongst board members. Skills, knowledge and experience on sustainability-related topics, such as climate change, nature loss, water security, oceans, seas and coasts, resource efficiency, circular economy, forests, pollution, gender, human rights, youth education and financial inclusion, are actively and openly recruited for.

Policy targets include:

- At least 50% of board director nomination shortlists should be women
- At least 40% of women on the board
- At least one director from an ethnic minority background
- At least one sustainability experts on the board

Organisational diversity targets to support a more diverse pipeline of decision-makers

Another member bank has a published, board approved Global Diversity & Inclusion Policy which sets out the bank's vision to unlock potential through inclusive culture. Through the Policy, the bank commits to:

- Ensuring decisions affecting recruitment, learning, promotion pay, and development are based on individual ability and reflect genuine job requirements.
- Conducting and publishing annual analysis of global gender pay gap and equal pay for equal work assessment to promote equal remuneration; and
- Meeting their executive and leadership targets to promote diversity, specifically:
  - Gender diversity target of 30% of their Executive and Supervisory Boards
  - At least 40% women in senior leadership by 2030
  - At least 30% women in the leadership pipeline by 2025

- **Internal reporting cadence:** Creating internal information flows and active monitoring mechanisms linked to the identified responsible banking commitments is important to ensure effective implementation and promote accountability. Establishing and proactively planning for a regular internal reporting cadence, which receives appropriate management input and board-level circulation, is necessary to ensure continued oversight and challenge. Reporting should reflect organisational progress but crucially also any known gaps, dependencies, and risks (in terms of both impact materiality and organisational risk) the bank faces. In relation to PRB implementation specficially, periodic updates on progress against the PRB requirements and recommentations at board and senior management levels is encouraged. Such reporting and oversight should include a remedial mechanism in the event of targets or milestones not being achieved or there are unexpected negative impacts identified.

- **Connecting sustainability and culture:** Increasingly, stakeholders and regulators are looking to understand how organisational culture supports strategic ambitions and specifically sustainability commitments. While individual board roles and schemes of delegation will vary, many boards retain a responsibility for establishing and overseeing a healthy culture. Bank boards and senior management teams are guided to consider defining their own purposeful mission, linked to their sustainability goals, which can guide internal policies and processes such as appropriate controls, good governance and processes which seek to promote responsible behaviours.

4. Governance design

While leadership is a critical foundation to responsible banking success, it is important that sustainability is embedded within the bank's wider governance framework at business and functional department levels. This is a further step towards integration and internal systems transformation observed in leading responsible banks.

A bank's sustainability governance design should aim to promote controlled delivery against commitments and targets. While the design will vary from bank to bank and will be dependent of structure, size and resources, the aim should be to support positive outcomes and actions towards sustainable progress. A design which is inclusive of business units and functional divisions, rather than only the top layers of senior governance, is important.

Governance design

Sustainability governance framework design supports clear roles and responsibilities, with remuneration incentives aligned to sustainability commitments

This level of systematic adjustment requires careful organisational design, planning, dedicated resources, and controlled implementation to manage associated change management risk. An integrated approach to sustainability is recommended, rather than managing the responsible banking agenda separately.

Below are guiding effective practices to support **governance design:**[5]

- **Design and mapping**: Mapping and publishing the bank's sustainability governance model promotes internal and external understanding, with clear collective and individual roles and responsibilities allocated to committees, steering groups, working groups and individual role profiles. Banking institutions globally will differ in their distribution of responsibilities, however, common to all banks is a need for dedicated ownership.

  See the spotlight below for further inspiration on responsibility mapping across senior governing bodies.

5 Note these practices are aligned with the disclosure requirements contained within the TCFD, TNFD and ISSB standards relevant to sustainability governance design.

Spotlight: Governance design

Responsibility mapping at senior governing body levels

Board level governance

Board responsibility to establish the bank's purpose, approve sustainability targets and oversee strategic progress. Board Committees are tasked with assisting the board in the above duties and integrating responsible banking within their existing responsibilities.

Audit committee	Remuneration committee	Risk committee	Responsible banking committee
Oversees internal controls and reporting on sustainability issues	Oversees performance measures and assessments including those relating to ESG	Oversees risk exposures and appetite, including sustainability risk (climate, nature, human rights-related)	Oversees development of sustainability strategy and engages with relevant stakeholders

Management level governance

The CEO has overall accountability for sustainable business performance. This accountability is shared and delegated amongst the executive leadership team. Business and functional level governance supports accountable executives.

Management committee	Executive risk committee	Executive sustainability committee	Controls and disclosure committee
Approves and directs lines of action and resourcing on sustainability strategy	Manages, controls and monitors the sustainability risk radar	Manages the implementation of the sustainability strategy including action planning	Manages the control environment relating to sustainability processes and disclosures

- **Allocating management accountabilities:** Defining clear roles and responsibilities amongst the senior leadership team and broader business and control function teams is an important sustainability governance step. Many banks have allocated ultimate accountability for delivery of PRB and broader sustainability commitments to the Chief Executive Officer (CEO), Chief Financial Officer, Chief Risk Officer or a combination of these roles, often supported by a Chief Sustainability Officer (CSO). In other cases, while accountability rests with the CEO, delivery responsibility may be delegated to business leaders. In some regions, such formal accountability mapping at C-suite level is a mandatory requirement under the supervisory regime.[6] Establishing oversight and accountability for impact management is encouraged via the UNEP FI Impact Protocol. Further, it is important that decision-makers can understand the relevant impact areas, support connected targets and be able to assess and oversee the associated impact materiality and organisational risks.

- **Empowering sustainability teams:** The size, structure and placement of sustainability teams or professionals within the organisation will vary from bank to bank, depending on its own size, resources and business structures. Increasingly, CSOs or equivalent roles are reporting directly to the bank CEO, CFO and/or CRO. Research indicates that when CSOs report directly to these executive levels, who are often represented on the bank boards, they are more likely to say their company is on track to hit organisational sustainability targets than those who report to other business leaders.

  Some banks find success in placing the sustainability team within strategy functions, empowering them to help shape the bank's strategy and promote the strategic alignment practices which are referred to in Chapter 6 which follows. Others find that a second line of defence placement, alongside Risk and compliance, promotes understanding of the relevant regulations and champions a culture of control. Many banks opt for a sustainability centre of excellence model alongside a network of sustainability champions across business and functional units to promote a "one bank" approach. Sustainability teams are increasingly multi-disciplined, taking up the role of sustainability champions, strategists, economists, gatekeepers, ethicists and agents of transformative change. These demands come with engagement opportunities but also resourcing and recruitment challenges given the desired skills are in-demand.

- **Supporting and resourcing delivery:** Prudential regulators are in some regions advocating for senior management responsibilities to include a specific role in ensuring that the sustainability agenda, including implementation and delivery, is appropriately resourced with the skills, expertise, and budget allocation necessary.[7] Dedicated governance and project management resources are often required to mobilise around sustainability commitments and/or new regulatory requirements.

6 For example, in the United Kingdom of Great Britain & Northern Ireland under the Financial Conduct Authority's Senior Managers and Certification Regime.

7 For example, the United Kingdom Prudential Regulatory Authority within its Supervisory Statement SS3/19 guides banks on identifying and allocating responsibility for managing financial risks from climate change, with a board-level responsibility to ensure that adequate resources and sufficient skills and expertise are devoted to managing such risks—bankofengland.co.uk/-/media/boe/files/prudential-regulation/supervisory-statement/2019/ss319

- **Subsidiary governance:** Governing subsidiary progress against group-level or parent targets merits special attention and thoughtful consideration. Different countries and regions have different decarbonisation and other relevant sustainability goals. Often the group-level or parent company will set targets for their global portfolios. Subsidiary progress tracking against such global targets should form part of the overall sustainability governance design. Management reporting on subsidiary progress should refer to regional or country-specific opportunities and challenges, and specifically how these are impacting or are expected to impact on the subsidiary's ability to deliver against group commitments. Under some group structures, subsidiary-specific targets, goals or ambitions may be set which are more closely aligned to the regional or country operating environment.

- **Organisational governance and controls:** Below senior governing body levels, broader organisational governance is important to define. Connecting budget planning and business unit practices with sustainability goals is a necessary step. Sustainability-linked funding, financing product development and deployment, as well as client transition engagement and lending criteria alignment, is most often owned by business areas supported by controls and risk teams. Appropriate controls and policies on client interactions, funding practices and transactional procedures should be in place and well understood, including for example clear definitions and manuals on credible client transition plans, transactional due diligence procedures and restrictive policies. Included within this category is the implementation of appropriate controls to design, approve, market, manage and measure on sustainable products and services, with input and expertise from control functions.

  Some regional regulators require banks to review and adapt their governance arrangements and internal processes to build safeguards against greenwashing, take a proactive approach in addressing data challenges, and consider the extent to which external verification and alignment with market guidance would support credibility of green or sustainable products and/or targets. Others already guide banks on the need to integrate sustainability considerations within their lending and underwriting practices, placing responsibility across business, risk and control and audit teams.[8]

- **Partnering with control functions:** Despite structure diversity, common across the global banking industry is a need for control functions—particularly finance, risk, legal, policy, compliance and audit teams—to be key partners in any sustainability journey. Their input, expertise, scrutiny and in many cases ownership of certain activities should be sought and welcomed to support controlled delivery. A culture where control function input is welcomed and trusted is a positive indicator of strong organisational design and a healthy internal culture. To facilitate close partnerships and cross-functioning teams, responsibilities should be reflected in governing body terms of reference and job descriptions and, where possible and appropriate, accompanied by performance objectives.

  Legal functions are increasingly at the forefront of sustainability discussions given the increasing prevalence of sustainability laws and regulation, legal risks such as green-

8 For example, the OECD's MNE Guidelines regarding lending and underwriting, as adopted by the European Banking Authority.

washing and the increasingly materiality of sustainability decisions from a strategic perspective. Legal teams play an important role in promoting credibility and controlled delivery against commitments.

See the spotlight below for further inspiration on allocating roles across a bank, reflecting the above points of guidance.

Spotlight: Governance design

Responsibility mapping across core bank teams

Senior governing bodies

- Responsibility to establish the bank's responsible purpose or mission, approve strategic, sustainability-related targets.
- Oversee sustainability progress in-line with targets and exercises oversight of sustainability-related risk management.
- Engages with stakeholders including civil society and employees to monitor their interests.
- Established oversight, accountability and relevant organisational responsibilities including for portfolio and context analysis, action planning and delivery.
- Nurtures a culture promoting ethical behaviour and accountability.

Management

Sustainability teams

- Lead on policy development, responsible advocacy and stakeholder engagement activities.
- Support delivery of sustainability goals and targets through business unit and functional division partnership, adding expertise through thought leadership, training, engagement and collaboration opportunities.
- Together with functional teams including risk and legal, act to safeguard the credibility of the sustainability strategy and its delivery through product, policy and procedural development.

Business units

- Leads and directs actions and application of resources to achieve the approved sustainability targets and overall bank mission, reporting to the governing bodies on progress, opportunities and risks.
- Establishes and maintains appropriate structures and processes for the management of operations and risk, including for example sustainable product and proposition development.
- Ensures compliance with legal, regulatory and ethical expectations including sustainability regulations, supported by expertise and guidance from sustainability and other functional teams.

Risk and control teams

- Provides complementary expertise, support, monitoring and challenge related to the management of sustainability-related risk, including advice and assessment on reputational, conduct and legal risks such as greenwashing and associated operational risks.
- Provides analysis and reporting on the adequacy and effectiveness of sustainability risk management practices and procedures including internal controls.

Audit and assurance

- Internal audit—responsible for independent review of the overall control framework for sustainability risks and systems including those managed by business units and supported by functional divisions.
- External assurance—satisfy legislative and regulatory assurance requirements or management requests, complementing internal sources of assurance.

- **Sustainability-linked remuneration:** Establishing a link between sustainability-related objectives, management responsibilities, performance and incentives/remuneration is seen as an important progression by many relevant stakeholder groups, including civil society and the investor community. Leading banks are designing their executive and staff remuneration and incentivisation policies to promote sustainable value over the long term. This is seen as an important tool to help align actions and outcomes with sustainability commitments, including the PRB. Examples of executive and senior management remuneration being linked to sustainability performance are now well-established amongst member banks, with 38% of PRB signatories reporting on their sustainability-linked remuneration practices. This is particularly concentrated in regions with advanced regulation on this topic such as Europe. A sustainability-linked remuneration structure is most associated with variable pay, such as performance-related bonuses. A set, weighted sustainability-related measure is included within the overall performance scorecard and assessed annually. Sustainability weightings observed amongst banks range from 7–30%.

  The effectiveness of such structures depends on the mechanisms used and the metrics and weightings applied. Leading responsible banks use remuneration performance indicators that are meaningful, measurable, transparent, and stretching, and aligned to responsible banking action plans. Care should be taken to avoid complex compensation policies which do not lend themselves to accessible scrutiny.

  See the spotlight below for further inspiration and examples of observed sustainability-linked remuneration indicators.

Spotlight: Governance design

Examples of sustainability-linked remuneration indicators

Examples of observed sustainability-linked remuneration indicators	
Type of indicator	**Description**
Financed emissions reduction targets	Emissions intensity reduction targets are met at portfolio level.
Product or project targets	A set amount of "sustainable", "social" or "green" finance products has been issued. A set amount of loans to projects with positive social/ environmental impact is met. For example, delivering a set amount of SME loans to female or youth entrepreneurs.
Target setting and implementation	A variable remuneration incentive is triggered based on the percentage of portfolio/sectors covered by science-based targets. The institution delivers and publicly discloses a climate transition plan.
Policy setting	The institution meets predefined milestones as per its sustainability-related risk management strategy. For example, adopting certain policies within the institution including nature or human rights-based sector policies.
Ratings targets	The institution achieves a predetermined level of sustainability ratings from a set pool of rating agencies.
Operational targets	Internal diversity, equity and inclusion targets are met. For example, a set percentage of females in the top three layers of the organisation and/or a set percentage of colleagues from ethnic minority backgrounds in senior manager positions.

In the absence of a variable pay structure, which some state-owned models cannot support, performance reviews impacting base pay increases or other incentives can be considered. Expansion of sustainability-linked metrics to wider cohorts and selected roles, and eventually the broader workforce, is also emerging, although here care should be taken to include measures within employees influence and/or control.

Boards and board committees should play an important role in overseeing remuneration policies, practices and performance assessments, particularly remuneration and risk committees.

- **Responsible advocacy:** Advocating for stakeholder interests and societal needs, as aligned to the bank's PRB commitment, through responsible policy engagement and (where relevant) political contributions is encouraged and can be especially effective when conducted by the senior leadership team. Advocacy engagement is also an effective lever for banks to promote an enabling policy environment for any potential targets that the bank has set.

In this context, it is recognised that in some regions there is less scope for direct industry engagement with policymakers. Here, engagement via individual supervisory meetings and technical consultation groups is encouraged. For those signatories who engage primarily through banking associations, encouraging such associations to adopt responsible engagement policies and PRB-aligned positions is recommended. Care should be taken to ensure that direct and indirect advocacy and policy engagement activities are not contradicting banks' sustainability commitments and targets.

See the spotlights below for further inspiration.

Spotlight: Governance design

Responsible advocacy

In the context of just transition and via a publicly disclosed responsible advocacy statement, a member bank acknowledges the importance of advocating for equity-focused climate policy at government levels as a key component in its own net zero journey. They commit to disclosing all submissions to policy maker on the topic to promote transparency amongst the bank's stakeholders.

Another member bank has committed to board-approved public disclosures on the following areas, considered to demonstrate responsible advocacy activity:

1. Disclosure of their membership in and support for trade associations, think tanks, or similar bodies that conduct any form of political engagement, including key contributions and supported publications from such associations; and
2. Disclosure of the bank's governance processes and structures to ensure that its overall political engagement is aligned with its sustainability commitments, notably its PRB signatory status, including any political engagement conducted by third parties on its behalf.

5. Sustainability integration

Sustainability alignment and integration

Sustainability impacts, risks and opportunities are embedded within the bank's core strategy and management framework

Integrating sustainability into the bank's purpose, mission and overall strategy enables banks to consider new opportunities, better service customers, reduce risks and be aligned with societal needs, enhancing its resilience and responsiveness.

Aligning strategies to the SDGs or other relevant sustainability frameworks and commitments acts not only as a signal of responsible banking support, but also as a catalyst for internal change mobilisation. Leading responsible banks have linked their public strategies and mission to their sustainability commitments, establishing appropriate responsible banking policies, systems and procedures with effective management systems and controls, including risk, compliance and third-party assurance procedures.

Regulatory and supervisory regimes are beginning to now mandate the disclosure of such strategy, risk management and governance integration, for example the European Union through its qualitative Pillar 3 ESG reporting requirements.[9]

Below are guiding effective practices to support **strategic sustainability management integration:**[10]

- **Strategic alignment:** A leading responsible bank's public strategy and business objectives, as guided and approved by the board and senior management team, should be linked to clearly identifiable sustainability goals and target, including its PRB commitment. These goals, targets, and ambitions should be consistent with and contributing to global frameworks, as expressed in the Sustainable Development Goals, the Paris Climate Agreement, the UN Principles for Business and Human Rights and other relevant global, national and regional frameworks.

  See the spotlight below for further inspiration.

9 Source: Official Journal of the European Union (2022). Commission Implementing Regulation (EU) 2022/2453 of 30 November 2022 amending the implementing technical standards laid down in Implementing Regulation (EU) 2021/637 as regards the disclosure of environmental, social and governance risks

10 Note these practices are aligned with the disclosure requirements contained within the TCFD, TNFD and ISSB standards relevant to strategic sustainability management integration.

Spotlight: Strategic and risk management integration

Making sustainability impacts core to the bank's strategy

A member bank identified climate change mitigation and financial health and inclusion as its most significant impacts and incorporated them into a sustainability pillar–one of three pillars in its overall group strategy. Under the sustainability pillar and overseen by their board-level sustainable banking committee, the member bank focuses on achieving a just transition to a net zero emissions economy, supporting environmental regeneration, and building resilience, all aligned with relevant SDGs. Simultaneously, its mission promotes long-term social, cultural, and financial well-being in its geographical and jurisdictional context, aligning with other SDGs.

- **Governance cycles:** Strategic, risk management, resilience and financial planning cycles should consider and be aligned with sustainability objectives. Board and management consideration of sustainability-related dependencies, impacts, risks, and opportunities when reviewing and guiding strategy development, major plans of action, policy development, budgets, business plans, organisational objectives, capital expenditures and corporate actions is encouraged. Some sustainability objectives are longer term (e.g. 2030, 2050 and 2060) and therefore may not always be easily incorporated into annual planning cycles. However, the planning cycles of leading responsible banks should consider longer-term transition and action plans, as well as track incremental progress towards targets where possible.

  See the spotlight below for further inspiration.

Spotlight: Strategic and risk management integration

Incorporating climate into the financial planning cycle

As a pre-step to climate transition planning and full financial planning integration, a member bank initiated a carbon plan alongside their main five-year financial planning cycle, the development of which was overseen by a dedicated board-level sustainable banking committee. The carbon plan included an initial assessment of lending and investment changes incorporated in the financial plan over the coming five-year period, as well as the mapping current and planned climate-related opportunities, including for example planned sustainable funding and financing product launches.

Acknowledging that the bank's own progress will be dependent on policy developments, customer behaviour and other technological advancements, the initial carbon plan also took steps to assess and model the impact of expected policies developments, as well as identifying those critical policy developments where the bank's own advocacy and influencing activity should be focussed. At the same time, the bank reported transparently on the need to develop and recruit for carbon accounting-specific capabilities to support more robust transition planning.

- **Risk management integration:** While the PRB framework is principally concerned with risk to people and planet, and in turn how banks manage such impact, there are clear interdependencies with the management of sustainability-linked financial risks, including both physical and transition risk. The PRB commitment is a proactive risk management action in the sense that aligning with sustainability objectives actively reduces transition risks and increases alignment with the society's goals, thus enhancing sustainability profile and reducing the risks associated with environmental, social and governance factors. Member banks are considering risk and impact together due to shared internal resources, regulatory requirements and through organisational structures. The nexus between sustainability-linked financial risk management and impact management is recognised and is something the PRB framework and connected UNEP FI initiatives seeks to support.

This is achieved through consistently and comprehensively embedding sustainability risks into banks' risk policies, risk and control frameworks, systems, processes, and governance structures. Leading responsible banks' risk appetites should be clearly defined and address all material sustainability risks whilst also covering capital planning, liquidity, data governance, and public disclosures. Risk appetite statements should be both implemented with support of adequate risk indicators with appropriate limits, thresholds, or exclusions, and cascaded down the business and appropriately monitored/escalated. Banks' sustainability risk approaches should be underpinned by a solid data governance framework, with measures in place to improve sustainability data quality.

See the spotlight and supporting tools below for further inspiration.

Spotlight: Strategic and risk management integration

Principles-based playbook

In the context of transition finance, a member bank has developed an internal Transition Finance Playbook comprising internal activity-specific and sector-specific policies, practices and definitions to support internal teams in managing transactions and relationships where finance is intended to decarbonise entities or economic activities that are emission-intensive, which may not currently have allowed-emission substitutes, but which are important for future economic development.

The Playbook is underpinned by the following four principles:

1. Do no significant harm.
2. No carbon lock-in.
3. Best available technology; and
4. Just transition

Supporting tools

UNEP FI's Risk Centre

Since 2018 UNEP FI has guided financial institutions in addressing climate risks. More recently, in 2022 UNEP FI also started offering innovative pilot testing on nature-related issues. These programmes are now integrated to form UNEP FI's new Risk Centre. The Risk Centre initiative consolidates efforts on climate, nature, and other sustainability risks, offering a holistic approach for financial institutions. The Centre offers a wide range of centralised resources to help members assess and find the opportunities in climate and nature risk through technical skill-building workshops, working groups that develop cutting-edge risk management tools and guidance, and sessions with leading external experts, regulators, modellers and data providers.

Find more information about the Risk Centre including how to register for the Programme here

UNEP FI Human Rights Toolkit

A step-by-step toolkit to help financial institutions to align with the UN Principles of Business and Human rights (the UNGPs). The tool is organized under the three key components of the UNGPs: Policy Commitment, Human Rights Due Diligence, and Access to Remedy. It addresses banks own operations, retail, lending and investment activities. To support the Human rights due diligence on the lending and investment activities, the toolkit also includes sector profiles with specific human right sectorial information.

Find more information on the work UNEP FI develops around human rights here.

6. Acting with purpose and knowledge

Purpose and knowledge

A purpose-led culture aligned to strategic ambition is established and supported, with learning and development on sustainability at the forefront

Delivering on the PRB commitment and associated sustainable action plans will impact the whole organisation, affecting almost every role. It is important that internal communications and development programmes support employees in understanding the bank's sustainability targets and plans, how these affect their deliverables, and how they will be supported in their own roles to pursue organisation action and delivery.

Upskilling the workforce on sustainability topics and the banking industry's role in supporting sustainable development promotes a culture of responsibility aligned to a bank's sustainability commitments. It demonstrates an investment in employees to build the future skills and behaviours needed to deliver on commitments. It is important to assess the organisation's skills gaps and bolster internal capacity.

Championing employee voices and development is closely linked to Principle 4 (Stakeholders), as well as Principle 5 (Governance and Culture). Aligning internal operations and ways of working with such commitments is an important step, promoting accountability and credibility.

Below are guiding effective practices and success factors for **acting with purpose and knowledge:**

- **Developing decision-makers:** As described more in Chapter 3 (Responsible leadership), implementing a board and senior management-level learning and development programme is a strong indicator of responsible banking commitment and equips decision-makers to safely oversee this dynamic agenda. Supporting the pipeline of future leaders by developing their skills and exposure to sustainability is equally important.
- **Foundational awareness-building:** Many member banks have rolled out education programmes for the broader workforce, targeting general, foundational awareness building to promote a culture of enablement and responsibility. These programmes also serve to encourage employees to explore their own contributions to the responsible banking agenda, and have proven to be successful employee engagement tools. Relevant, core topics can be introduced as part of the organisation's learning and development strategies and through targeted training on sustainability topics and connected skills.

See the spotlights below for further inspiration.

Spotlight: Acting with purpose and knowledge

Learning and development programmes

Leading responsible banks are implementing training strategies to address knowledge gaps throughout their organisations, generally with mandatory sustainability training for all staff and targeted specialist training to address knowledge gaps.

For example, a bank in a developing country is creating a Sustainability Academy to offer targeted training and development to advance the member banks' sustainability goals while addressing talent scarcity in this critical field across the broader ecosystem. The same member bank also has a programme to fast-track young graduates into sustainable finance.

Another member bank has developed an ESG training catalogue covering basic to specialist courses targeting specific employees.

- **Identifying and supporting priority roles:** Leading responsible banks are designing and developing training for priority, client-facing roles and those in dedicated sustainability-linked functional roles. Effective practice examples include the creation of sector-specific specialist teams who supplement and advise front-line teams on sustainability-linked client and customer engagement, and the roll out of mandatory sustainability courses (often accredited) for priority groups. Training should be adapted to, and differentiated based on, the specific needs of different teams and roles within the organisation.

  See UNEP FI's Risk Centre referenced in Chapter 6 (Strategic integration), and the PRB Academy referenced later in this chapter for further information and available services. UNEP FI also offers capacity building sessions for PRB members on broader topics of interest.

- **Building an internal community of sustainability champions:** This could include all employees who have a clear contribution to make, and responsibility for, working towards achieving sustainability goals and targets. The community can be managed and strengthened with frequent engagements such as webinars, leadership meetings, communication campaigns and knowledge building opportunities. It can serve as an effective employee engagement tool too. Building cross-functional communities of internal sustainability champions and business experts promotes a one-bank approach.

  See the spotlight below for further inspiration.

Spotlight: Acting with purpose and knowledge

Building expert communities

A member bank has established a cross-bank internal network of sustainable finance experts from across business and functional teams, including subsidiary and regional office representation, with the aim of pooling expertise. The network acts in promoting knowledge building objectives while also being tasked with advising on internal policy development and external policy advocacy to support responsible banking aims.

- **Seeking external knowledge:** Subject to available resources and available networks in the bank's location, it is an indicator of positive culture when external and expert perspectives and insights are welcomed and actively sought to advance a bank's knowledge and capacity. Leading responsible banks are partnering with civil society, non-governmental, academic, and scientific institutions, as well as employee groups and unions, to support design and implementation of knowledge programmes.

  Further details on Promoting stakeholder voices are contained in Chapter 7.

- **Recruitment:** Recruiting for sustainability skills across the business and control functions teams is a known challenge across the banking industry due to talent shortages. Skills gap analysis to identify priority skills and roles can support this process. In addition to the learning and development practices mentioned above, other effective practices seen across PRB signatories to support internal development are fast-track sustainability programmes for graduate bankers, secondment opportunities to promote cross-pollination of skills and short-term, project-specific exposure to sustainability projects to increase interest and awareness.

- **Purpose-led culture:** As covered in earlier chapters, building a culture which supports an organisational-wide momentum around the banks' sustainability commitments not only promotes internal systems change but can be a powerful and cohesive employee engagement driver. Genuine cultural transformation is a systematic internal shift and requires careful review and navigation of:
  - Systems
  - Processes
  - Communications
  - HR policies and practices
  - Company values
  - Leadership
  - Training

  See the relevant supporting tools below for further support on this pillar.

Supporting tools

PRB Academy

The Principles for Responsible Banking Academy is a unique education and training programme supporting banks and bankers worldwide on their journey to align their professional practice, strategies, operations, and decision-making with the objectives of the UN Sustainable Development Goals, the Paris Agreement and other relevant sustainability frameworks.

Currently learners have a choice of five modules, including a dedicated course for Board Members and Executives as well as client-facing staff. Learners can choose the course which best suits their level of knowledge: beginner, specialist or executive. All modules offer interactive, exciting eLearning resources and guided self-study. The courses can be embedded in banks' strategy to integrate sustainability in their organisational culture, as they can also be part of their educational platforms. The Academy was founded through a partnership between the United Nations Environment Programme Finance Initiative (UNEP FI), The Chartered Banker Institute, and the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH.

You can find out more about the PRB Academy at prbacademy.com

7. Promoting stakeholder voices

Stakeholder engagement

Customer, investor, employee and civil society voices are championed and promoted within decision-making frameworks and organisational practices

Closely connected to SDG17 Partnerships for the Goals, the scale of change necessary to meet the objectives of the SDGs, the Paris Climate Agreement and other relevant national, regional or international frameworks requires collective action and partnerships. By partnering with relevant stakeholders, banks can significantly increase the impact of their actions and support action at the scale of change that is required.

Through Principle 4 of the PRB, signatories commit to proactively and responsibly consult, engage, and partner with relevant stakeholders to achieve society's goals. Further guidance on how banks can work towards Principle 4 is contained within the PRB Guidance Document. In this Chapter, we focus specifically on promoting stakeholder voices within sustainability governance systems. Good governance frameworks promote both internal and external stakeholders' voices to guide not only decision making, but also to support organisational transformation and portfolio-related responsible banking progress.

Historically, bank's engagement with stakeholders was considered voluntary or carried out alongside corporate social responsibility activities. This is shifting in many regions, where the management of stakeholder relationships is increasingly a regulatory, supervisory and/or strategic requirement, linked to statutory, fiduciary duties. The effective management of stakeholder relations is increasingly seen as part of a bank's social licence to operate, with a board and senior management role to prioritise such engagement and create a culture of ethical conduct.

Below are guiding effective practices and success factors to **promote stakeholder voices** within sustainability governance systems:

- **Stakeholder engagement policies and practices:** Leading responsible banks are developing and publishing stakeholder engagement policies and practices to guide their engagement activities, often with senior management and board-level involvement and approval. This can encompass a wider range of stakeholders related to the portfolio projects and companies, including civil society organisations, representatives of communities, vulnerable and indigenous communities, workers, and employee organisations. Stakeholder engagement strategy should rely on stakeholder mapping, explicitly identifying key engagement partners and regularly updating them. For example, this could include outlining the bank's principles and guidelines for managing relations with its main stakeholders, how it identifies and categorises key stakeholders and its procedures for managing stakeholder dialogues and engagement communications.

See the spotlight below for further inspiration.

Spotlight: Promoting stakeholder voices

Respecting human rights

A member bank has a published, board-approved group policy framework including a public positioning statement to respect and promote human rights with their colleagues, customers, clients and third-party service providers. Working together with an expert charity body and an informal group of banks to build knowledge, the member has taken steps to understand how human rights can be respected and promoted across different banking activities, and specifically how the UNGPs can be embedded into their banking due diligence processes.

Within the framework are remedy and grievance mechanisms to promote stakeholder groups to speak up and raise concerns through appropriate channels. Board-level approval of the framework and ongoing monitoring is confirmed within the public statement, as is the management governance structure established to manage and monitor human rights-related risks and to further develop the bank's approach.

- **Formal stakeholder voice mechanisms:** Designing listening and feedback mechanisms to champion the voices of key stakeholder groups within the bank's decision-making framework, especially at board and senior management levels is encouraged. Effective practice examples from leading responsible banks are:
  - Employee advisory panels
  - External advisory panels comprising scientific and academic experts
  - Customer and client listening sessions
  - Regular investor relations programmes

  Mechanisms should aim be accessible and have fair and transparent participation procedures.

  See the spotlight below for further inspiration.

Spotlight: Promoting stakeholder voices

External advisory panel

A member bank has established a Stakeholder Advisory Group to engage with local organisations and communities affected by climate-related risks to help the bank better understand stakeholder perspectives and to help shape future policy and project finance decision-making. The Group is comprised of representatives from various segments of the community including local councillors, community leaders and charity groups to promote their voices. The primary aim of the Group is to facilitate continuous discussion with and guidance to the bank to help integrate community perspectives into their lending, investment and service initiatives.

- **Promoting transparency:** Credible sustainability strategies should be supported by credible delivery strategies. Transparently reporting on sustainability-related targets, ambitions and action plans, which the PRB framework actively promotes through Principle 6, reaffirms the message to stakeholders that these are material to the business. Reporting against defined metrics and targets also helps stakeholders to track progress and hold banks to account. Board and executive level input, review and approval of material sustainability reporting and communications is expected.
- **Championing employee voices:** Employees are a critical stakeholder group and merit particular mention in the context of sustainability governance. Employee voices should be championed throughout a bank's responsible banking journey, from strategic design to action/transition planning. This can be done through established channels such as employee representatives and trade unions and/or new mechanisms such as advisory panels and sustainability champion networks. The role of employees in delivering on sustainability commitments and driving institutional change should be recognised.
- **Codes of conduct:** Leading, responsible banks are establishing ethical codes of conduct or decision-making guides for governing bodies to support careful navigation of the moral dilemmas connected with responsible banking. One such example is a just transition policy. Guiding ethical codes of conduct can be helpful in steering a responsible course through the various interlinkages between impact areas, as well as managing greenwashing risk by promoting business integrity.
- **Inviting expertise:** As reported, PRB Signatory Banks commit to proactively engaging with stakeholders and are encouraged to invite their guidance, challenge, and expertise. Welcoming scrutiny and opportunities to learn through such interactions can support decision-making credibility, enhanced process and product development controls, knowledge building and a healthy internal culture.

  See the spotlight below for further inspiration.

Spotlight: Promoting stakeholder voices

Collaborating with UN Women to support gender equality goals

Through collaborative efforts with UN Women, several member banks have actively promoted gender-responsive financial services and internal practices, resulting in tangible impacts on gender equality. By breaking down gender barriers and empowering women economically, these member banks enable more women to access financial services and opportunities, improving financial inclusion and empowerment. Additionally, one member bank's data analysis revealed gender disparities in financial parameters, prompting them to adopt an underwriting policy relating to boardroom diversity.

- **Monitoring the impact of engagement:** An important stakeholder engagement step often neglected is monitoring the results of engagement processes. This can include how these results shape decision-making outcomes and influence other aspects of the responsible banking journey, such as impact analysis, target setting and action planning. The provision of grievance mechanisms that allow stakeholder to voice their concerns is a key step for this monitoring. This closed loop approach is observed in leading, responsible banks.
- **Engagement with Indigenous People and local communities:** Of note is the specific governance recommendation contained within the TNFD, where organisations are recommended to describe the organisation's engagement activities (in addition to human rights policies), including oversight by the board and management, with respect to Indigenous People, Local Communities and other affected stakeholders in the organisation's assessment of, and response to, nature-related dependencies, impacts, risks and opportunities.

While stakeholder voice mechanisms can support better, more informed and more responsive decision-making, they should not be designed to restrict the decision-making authority of elected or appointed boards or their directors, whose corporate duties are often stipulated in law and/or regulation.

At the collective level, the Civil Society Advisory Body is a unique forum for constructive and collective engagement between the banking industry and wider civil society, designed to help monitor collective progress, advise signatories banks on strategic matters and help maintain the relevance of the Principles for Responsible Banking with societal needs. This guidance has benefited from input from the Civil Society Advisory Body.

References

The guidance draws on effective practices seen amongst PRB signatory banks and on governance recommendations contained within leading sustainability guidance including the relevant provisions and insights from the following sources:

Abebe, A.A, Bezabih, S.W., Zelalem, B.A. (2022). *Corporate governance and financial performance in the emerging economy: The case of Ethiopian insurance companies*. Available at: tandfonline.com/doi/full/10.1080/23322039.2022.2117117 (accessed June 2024).

BCBS (2022). *Principles for the effective management and supervision of climate-related financial risk* June 2022. Available at: bis.org/bcbs/publ/d532.pdf (accessed April 2024).

Ceres (2023). *Sustainable Finance Options: A Guide for Financial Institutions*. Available at: assets.ceres.org/sites/default/files/reports/2023-11/Ceres%20Sustainable%20Finance%20Opportunities%20Guide.pdf (accessed June 2024).

CSRD (2022). *Directive (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards Corporate Sustainability Reporting*. Available at: data.europa.eu/eli/dir/2022/2464/oj (accessed March 2024).

EBA (2022). *Implementing technical standards on Pillar 3 disclosures on Environmental, Social and Governance (ESG) risks*. Available at: eba.europa.eu/publications-and-media/press-releases/eba-publishes-binding-standards-pillar-3-disclosures-esg (accessed June 2024).

ECB Banking Supervision (2022). *European Central Bank Good practices for climate-related and environmental risk management: Observations from the 2022 thematic review*. Available at: bankingsupervision.europa.eu/ecb/pub/pdf/ssm.thematicreviewcercompendiumgoodpractices112022~b474fb8ed0.en.pdf (accessed April 2024).

FCA (2023). *United Kingdom Discussion Paper* DP23/1 *Finance for positive sustainable change: governance, incentives and competence in regulated firms*. Available at: fca.org.uk/publication/discussion/dp23-1_updated.pdf (accessed June 2024).

IIA (2020). *The Institute of Internal Auditors (IIA)'s Three Lines Model: An Update on the Three Lines of Defence*. Available at: theiia.org/globalassets/documents/resources/the-iias-three-lines-model-an-update-of-the-three-lines-of-defense-july-2020/three-lines-model-updated-english.pdf (accessed June 2024).

ILO and UNEP FI (2023). *Just Transition Finance: Pathways for Banking and Insurance*. Geneva. Available at: unepfi.org/wordpress/wp-content/uploads/2023/11/Just-transition-finance_Pathway-for-Banking-and-Insurance.pdf (accessed June 2024).

ILO (2022). *Transforming Enterprises Through Diversity and Inclusion*. ilo.org/actemp/publications/WCMS_841348/lang--en/index.html (accessed June 2024).

ISSB (2023). *International Sustainability Standards Board (ISSB) inaugural global sustainability standards IFRS S1 and S2*. Available at: IFRS S1—ifrs.org/issued-standards/ifrs-sustainability-standards-navigator/ifrs-s1-general-requirements/#about IFRS S2—ifrs.org/content/dam/ifrs/publications/pdf-standards-issb/english/2023/issued/part-a/issb-2023-a-ifrs-s2-climate-related-disclosures.pdf?bypass=on.

Monda, Barbara and Giorgino, Marco (2013). *Corporate Governance and Shareholder Value in Listed Firms: An Empirical Analysis in Five Countries (France, Italy, Japan, United Kingdom, USA)*. Available at SSRN: ssrn.com/abstract=2227184 or dx.doi.org/10.2139/ssrn.2227184 (accessed June 2024).

OECD (2023). *G20/OECD Principles of Corporate Governance 2023*, OECD Publishing, Paris. Available at:doi.org/10.1787/ed750b30-en. (accessed April 2024).

OECD (2023). *International Multinational Guidelines on Responsible Business Conduct of the OEC*. Available at: mneguidelines.oecd.org/mneguidelines/ (accessed July 2024).

RRA (2022). *Russell Reynolds Associates' Survey of Sustainable Leaders as republished by the Harvard Law School Forum on Corporate Governance*. Available at: russellreynolds.com/en/insights/articles/cso-have-more-impact-when-they-are-aligned-to-the-ceo (access July 2024).

PRA (2019). *United Kingdom Prudential Regulatory Authority Supervisory Statement* SS3/19. Available at: bankofengland.co.uk/-/media/boe/files/prudential-regulation/supervisory-statement/2019/ss319 (accessed February 2024).

S&P (2019). *Exploring the G in ESG: Governance in Greater Detail*—Part I by K Tang). Available at: spglobal.com/en/research-insights/articles/exploring-the-g-in-esg-governance-in-greater-detail-part-i (accessed May 2024).

TCFD (2017). *Task Force for Climate-related Finance Disclosures Recommendations*. Available at: assets.bbhub.io/company/sites/60/2021/10/FINAL-2017-TCFD-Report.pdf (accessed February 2024).

TNFD (2023). *Task Force for Nature-related Finance Disclosures* (Recommendations Version v.1.0 September 2024. Available at: tnfd.global/publication/recommendations-of-the-taskforce-on-nature-related-financial-disclosures/#publication-content (accessed March 2024).

United Kingdom Transition Planning Taskforce (2023). *Disclosure Framework*. Available at: transitiontaskforce.net/disclosure-framework/ (accessed March 2024).

UN (2011). *United Nations Guiding Principles on Business and Human Rights—Implementing the United Nations "Protect, Respect and Remedy" Framework*. Available at: Guiding Principles on Business and Human Rights—Implementing the United Nations "Protect, Respect and Remedy" Framework" (access April 2024).

UNEP (2023). *Responsible Banking: Towards Real-world Impact*. Geneva. Available at: unepfi.org/industries/banking/prb-2nd-progress-report/ (accessed: February 2024).

UNGC (2024). *Transformational Governance Toolkit*. Available at: unglobalcompact.org/what-is-gc/our-work/governance/transformational-governance/transformational-governance-corporate-toolkit (accessed July 2024).

UNEP Finance Initiative brings together a large network of banks, insurers and investors that collectively catalyses action across the financial system to deliver more sustainable global economies. For more than 30 years the initiative has been connecting the UN with financial institutions from around the world to shape the sustainable finance agenda. It has established the world's foremost sustainability frameworks that help the finance industry address global environmental, social and governance (ESG) challenges. Convened by a Geneva, Switzerland-based secretariat, more than 500 banks and insurers with assets exceeding USD 100 trillion work together to facilitate the implementation of UNEP FI's Principles for Responsible Banking and Principles for Sustainable Insurance. Financial institutions work with UNEP FI on a voluntary basis and the initiative helps them to apply the industry frameworks and develop practical guidance and tools to position their businesses for the transition to a sustainable and inclusive economy.

unepfi.org

unepfi.org

info@unepfi.org

/UNEPFinanceInitiative

UN Environment Programme Finance Initiative

@UNEP_FI