



IACPM and RMI
Credit Portfolio Management Educational Workshop
August 2, 2022

Risk Appetite and ESG/Climate: Evolving
Organizational Priorities

www.iacpm.org

Marcia Banks

Deputy Director

IACPM

Agenda

- About the IACPM
 - ▶ Conferences and Meetings
 - ▶ Research Overview and Select Highlights
 - ▶ Regulatory Advocacy
- Evolving Risk Management Frameworks
 - ▶ Risk Appetite
 - ▶ ESG and Climate
- Appendix: IACPM Resources

About the IACPM

IACPM's Mission

- Further the management of credit exposures by providing a forum for member institutions to exchange ideas
- Foster research on credit portfolio management
- Represent members before regulators around the world
- Develop and promote sound practices

IACPM 137 Members Around the Globe



137 IACPM Member Institutions

ABN AMRO Bank NV	Banco Santander	Export Import Bank of India	Maybank	ScotiaBank
ABSA Bank Ltd.	Bank of America	FMO Entrepreneurial Dev. Bank	MIGA	Silicon Valley Bank
Africa Finance Corporation	Bank of Montreal	Farm Credit Canada	Miller Insurance	Société Générale
African Development	Barclays	Fidelis Insurance	Mizuho Bank, Limited	Sovereign Risk Insurance Ltd.
African Export Import Bank	BBVA	Fifth Third	MUFG Bank, Ltd.	Standard Bank Group
AIG, Inc.	BNP Paribas	FirstRand Ltd.	Munich Reinsurance	Standard Chartered
AIMCO	BP	Goldman Sachs	National Australia Bank	State Bank of India
Alecta Tjänstepension	BPL Global	Grupo Bancolumbia	National Bank Financial	Sumitomo-Mitsui
Ömsesidigt	Cairn Capital Group Ltd.	Guy Carpenter	NatWest Group Plc	Banking Corporation
Allen & Overy LLP	Canara Bank India	Heartland Financial	Natixis	Sumitomo Mitsui
Allianz SE	Capital One	Howden Group	Nedbank Ltd	Trust Bank, Limited
Aon	Chorus Capital	HSBC	New Development Bank	Sun Life Financial
APICORP	Christofferson, Robb & Co	ICICI Bank Ltd.	Newmarket Capital	Swiss Re
ArrowMark Partners	Citigroup	IDB Group	Nomura	TD Bank
Arthur J. Gallagher & Co.	Clifford Chance	IFC	Nordea Bank	Texel Finance Ltd.
Arch Capital Group	Commerzbank AG	ING Group	Northwestern Mutual	The D.E. Shaw Group
Asian Development Bank	Commonwealth Bank	Intesa Sanpaolo	OCBC Bank	Truist Financial Corporation
Asian Infrastructure Inv. Bk	of Australia	Japan Post Bank Co., Ltd.	Orchard Global Asset	U.S. Bank
Assured Guaranty	Credit Agricole CIB	JPMorgan Chase	Management	UBS AG
ATB Financial	Credit Suisse	KeyCorp	PAG	UK Export Finance
Atlantic Global Credit Risk	Danske Bank	KfW Ipex	PGGM	UniCredit Group S.p.A.
Australia & New Zealand	DBS	Liberty Specialty Markets	PNC Financial Services	UOB Ltd.
Banking Group	Deutsche Bank	Limit Financial	Prudential Financial	Vantage
Awbury Insurance	Development Bank of Japan	Linklaters LLP	RBL Bank India	Wells Fargo
AXA Investment Managers	DNB Bank ASA	Lloyds Banking Group	Rabobank	Westpac
AXA XL	Energetic Insurance	M&G Investments	Raiffeisenbank Intl	Whitecroft Capital
Axis Capital	European Investment Bank	M&T Bank	Regions Bank	Willis Towers Watson
Banco de Sabadell, S.A.	European Investment Fund	Macquarie Group	Renaissance Reinsurance	
Banco do Brasil, S.A.	Export Development Canada	Marsh Credit Specialties	Limited	

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Chief Risk Officer
Standard Chartered Bank

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Chief Risk Officer
DBS

Recent/Upcoming Meetings & Webinars

March 25	IACPM Climate Risk Webinar at RBI College of Supervisors
April 1	IACPM Australia Regional Meeting
April 1	IACPM Credit Insurance Summit in London
June 7	IACPM DFI Virtual Roundtable
August 2-3	NUS Policy Forum and IACPM Credit Portfolio Workshop in Singapore
August 4	IACPM Singapore Regional Member Meeting
July 19	Economic and Credit Strategy Outlook Webinar (public recording available)
Aug 26	IACPM Climate Focus Group Webinar - APAC (member firm signup in process)
October TBA	India Roundtable (Mumbai) – in person
November TBA	Continental Europe Roundtable (Frankfurt)
Nov 30-Dec 2	IACPM Fall Conference and Roundtable Discussions (registration opens August)
Dec 2 onwards	IACPM Online Educational Seminar [available for 10 weeks]

Research Overview

IACPM/Bain Study 2022: ESG as a Source of Strategic Value Creation

Signup and submissions are ongoing

IACPM/McKinsey Study 2021: Data and Analytics Innovations in CPM, including ESG/Climate

Whitepaper will be available soon

ESG & Climate Risk Management Frameworks 2022

Results available to participants, Webinars scheduled to discuss in roundtable format, White paper available soon

Principles and Practices 2021

Whitepaper Available [here](#)

Synthetic Securitisation Market Volume 2022 (annual)

2022 Results Available to Participating Firms

IACPM/ITFA Private Credit Insurance Survey 2021

Results available [here](#).

Risk Appetite Frameworks Survey 2020

Whitepaper Available [here](#)

Quarterly Credit Outlook

Results Available [here](#)

Regulatory Advocacy

Among current/recent areas of comment:

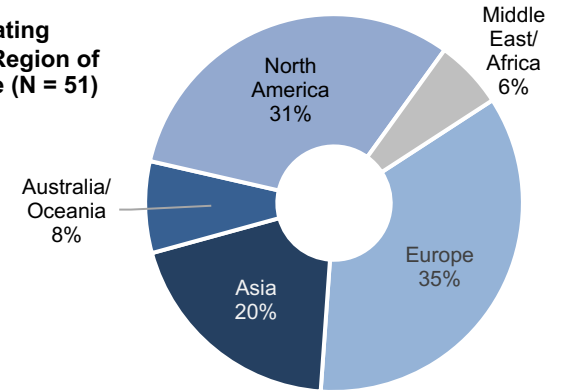
- ISSB General Sustainability-Related Disclosure Requirements and Climate-related Disclosure Requirements (comments due July 29, 2022)
- ESAs consult on sustainability disclosures for STS transactions (Comments submitted July 2022)
- US SEC - consultation on the Prohibition Against Fraud, Manipulation or Deception in Connection with Security-Based Swaps (submitted March 2022)
- European Commission – Have Your Say comment period on 2021 European Banking package with focus on securitization output floor, CDS EAD, eligibility of unfunded protection from credit insurers and sovereign guarantees (submitted February 2022)

Evolving Risk Appetite Frameworks

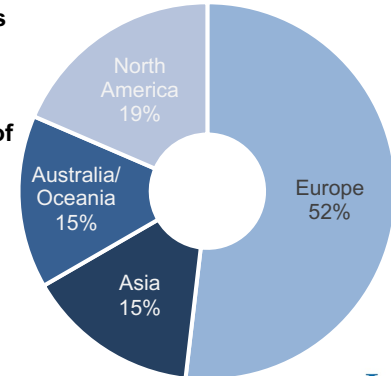
Risk Appetite Survey – Goals & Demographics

- The IACPM conducted a benchmarking study on Risk Appetite Frameworks (RAF) in 2020. The survey launched in March 2020 – just as COVID pandemic impacts were becoming known.
- 57 IACPM member firms participated:
 - 50 banks – 20% Asia and 8% Australia
 - 6 development banks
 - 1 insurance company
- The survey explores: evolving practices across organizations, framework structure and governance, implementation approach, emerging risks and challenges looking forward.
- Results focus for this discussion include aggregate responses for the 50 banks and one insurance company.

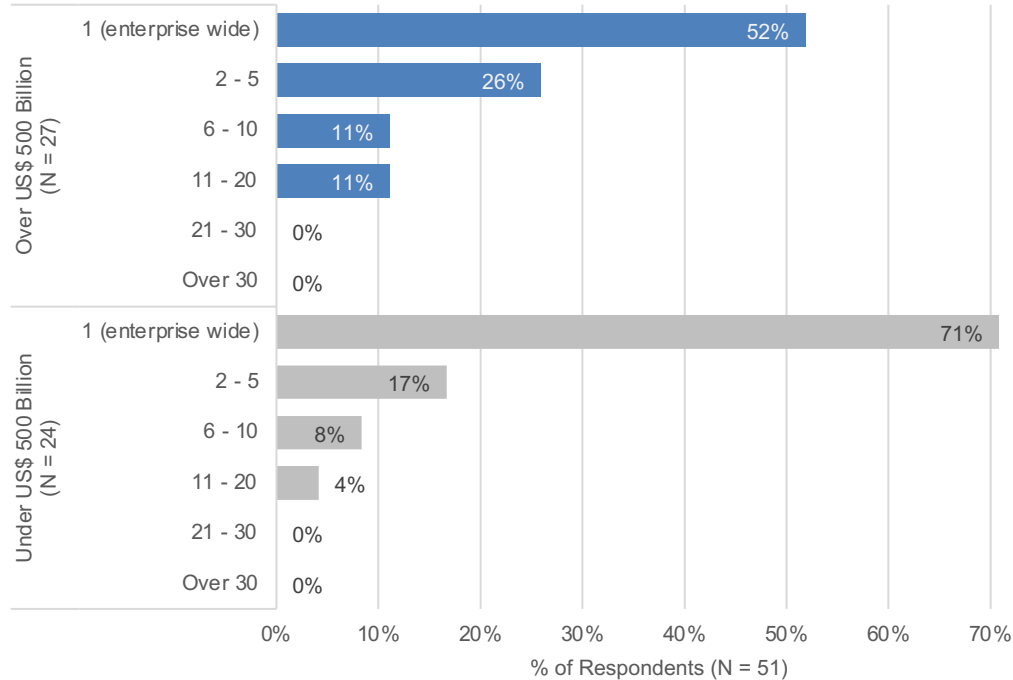
Participating Banks' Region of Domicile (N = 51)



Participating Banks with Total Balance Sheet Assets greater than US\$ 500 Bn by Region of Domicile (N = 27)



Number of Risk Appetite Frameworks

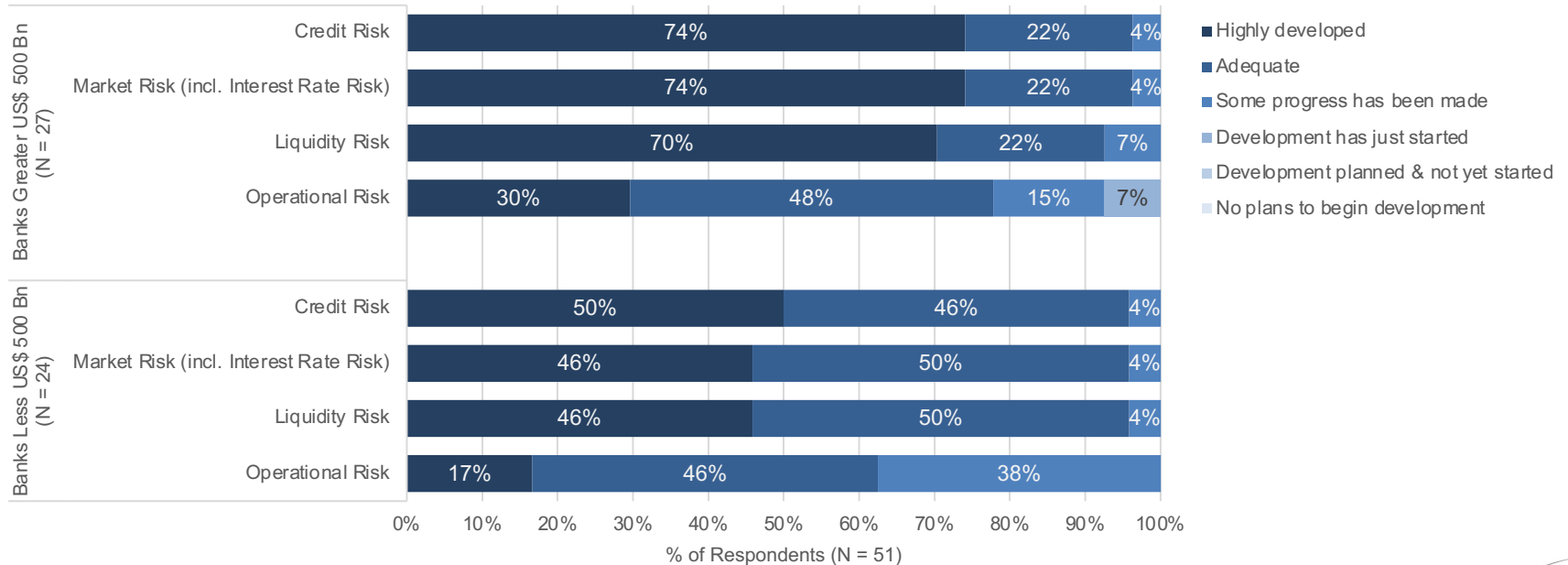


Source: IACPM Risk Appetite Frameworks Survey 2020 | Question: Please indicate the number of Risk Appetite Frameworks (RAF) and Risk Appetite Statements (RAS) your institution issues overall to allocate/cascade the enterprise-wide RAF and RAS. (Q2)

Risk Appetite Frameworks' Level of Development

By Financial Risk Type

Credit risk has always been more advanced compared to other risk types. This gap has narrowed over the past six years, with RAFs for other financial and non-financial risks maturing significantly to reach similar levels across all surveyed institutions.



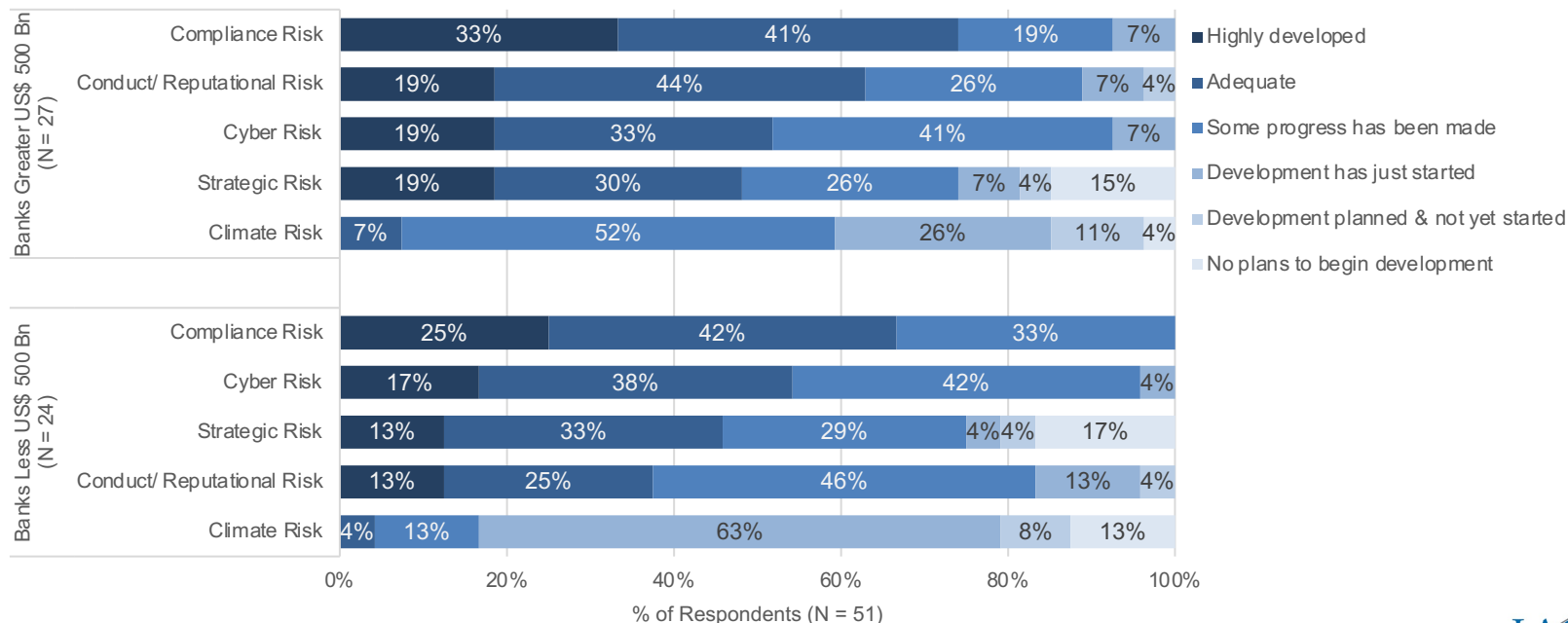
Source: IACPM Risk Appetite Frameworks Survey 2020

Question: What is your subjective assessment of the level of development of your institution's Risk Appetite Framework (RAF) for different risk types? (Q4)

Risk Appetite Frameworks' Level of Development

By Non-Financial Risk Types

More work is still required for non-financial risks for which RA is mainly defined from a qualitative perspective by identifying key risk indicators with associated thresholds to monitor risk profiles. Notably, participants' subjective assessment of their institutions' RAF for climate risk lags other non-financial risks even at larger and/or more advanced institutions.



Source: IACPM Risk Appetite Frameworks Survey 2020

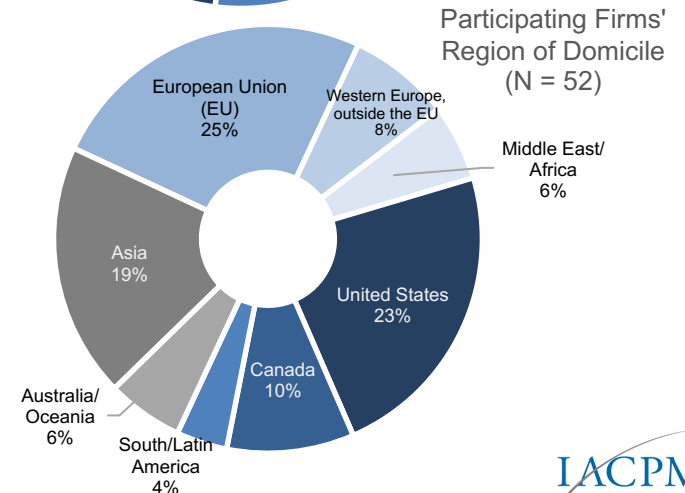
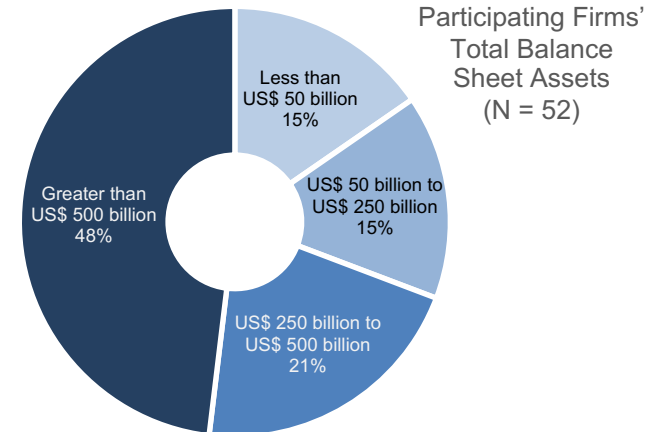
Question: What is your subjective assessment of the level of development of your institution's Risk Appetite Framework (RAF) for different risk types? (Q4)

ESG & Climate Risk Frameworks

organization
drivers in decision-making
role of risk and credit portfolio management

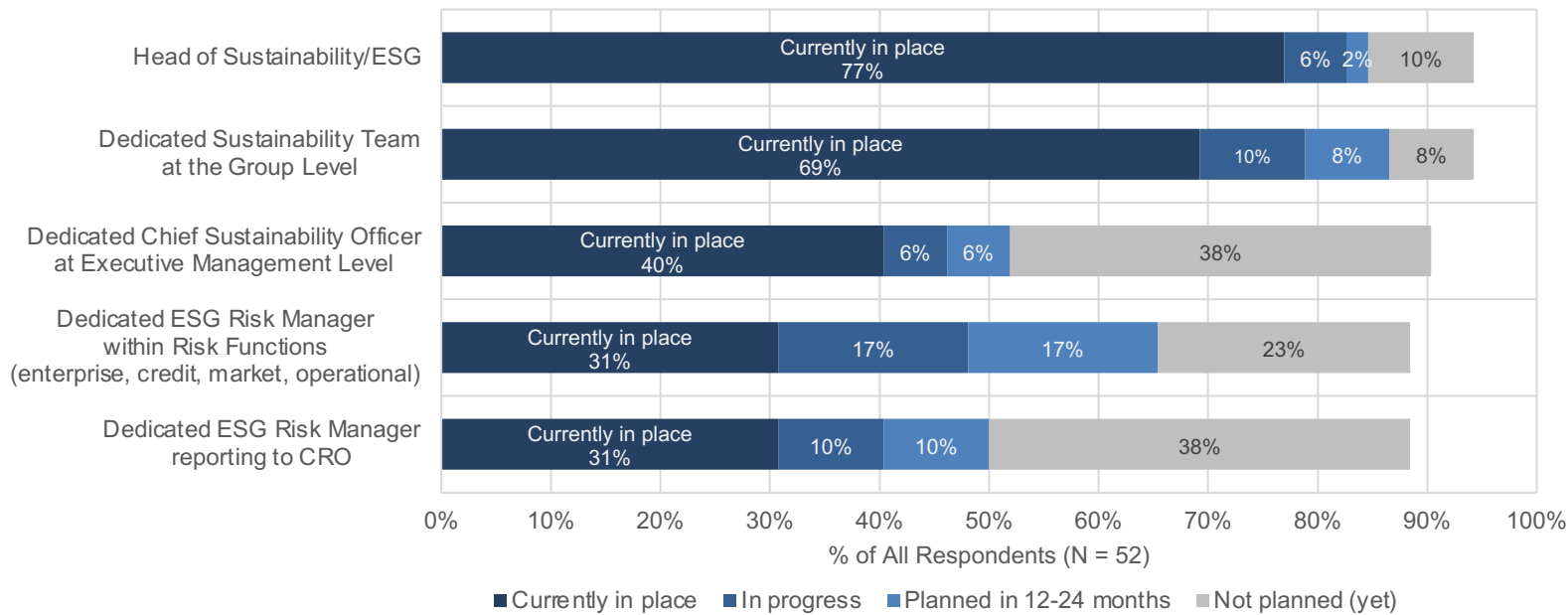
ESG and Climate Survey - Goals & Demographics

- In early 2022, the IACPM conducted a survey on ESG & Climate Risk Management Frameworks.
- The survey looks at ESG & climate risk governance frameworks, responsibilities, and level of development of integrating climate risk considerations into credit risk management processes. The survey begins with a few questions across all ESG risk factors before focusing solely on climate risk. A question on Net Zero commitment concludes the questionnaire.
- Results provide insights into the current state of ESG & Climate Risk Management across an array of firms and an opportunity for IACPM members to confidentially benchmark their practices with those of other leading financial firms.
- Globally, 52 IACPM member firms participated, including 42 banks, five development banks, three funds/asset managers, one insurance company and one reinsurer. Some 50% of the participating firms have a total balance sheet size above US\$ 500 Billion. A list of participating institutions can be found at the end of this deck.



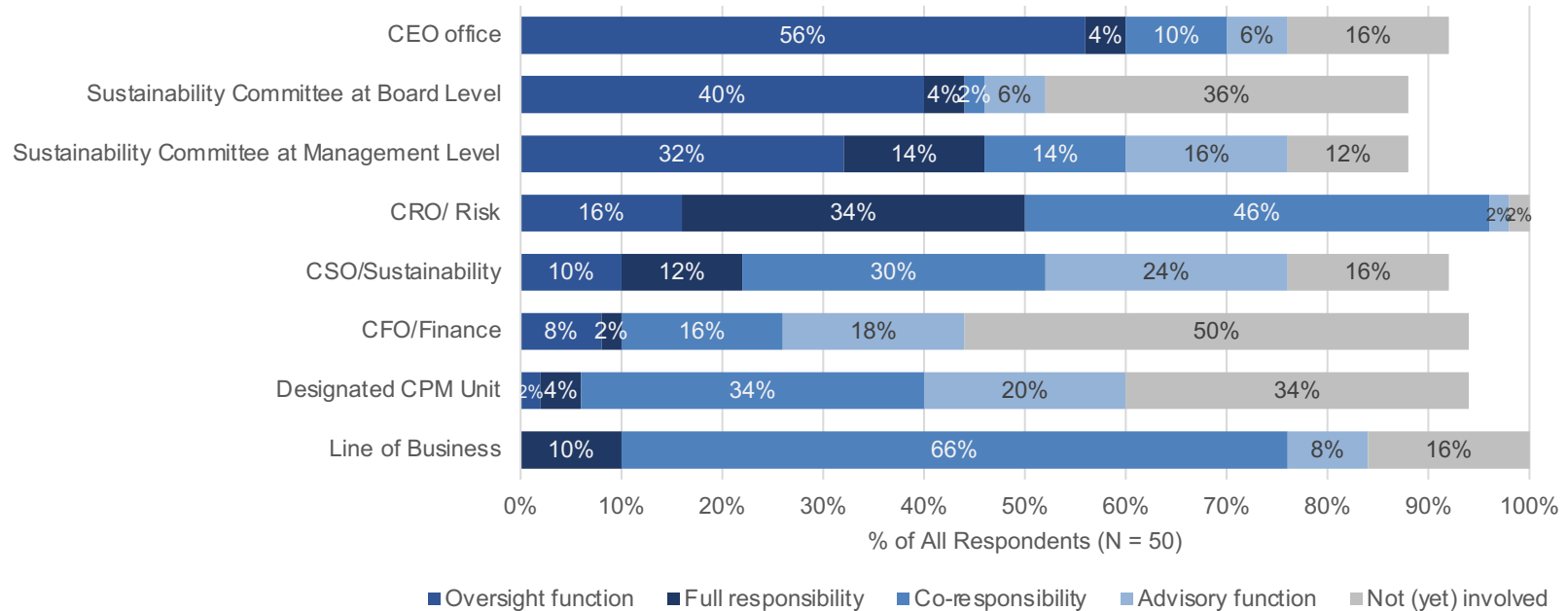
Organization: ESG & Climate Risk Governance Frameworks

Three-quarters of all participating firms have established a Head of Sustainability/ESG and close to that number have also established a dedicated Sustainability Team at the Group level. Over half of the responding firms have or are planning a Chief Sustainability Officers (CSO) position. Three commercial banks already have all five governance frameworks in place. Nine commercial and two development banks are either in progress or are planning to have all five established over the next 12-24 months. See next pages for more detail.



Source: IACPM ESG & Climate Risk Management Frameworks 2022 | Question: Please indicate ESG & Climate Risk governance frameworks your firm has in place or is planning to establish over the next 12 - 24 months. Please indicate all that apply. (Q2)

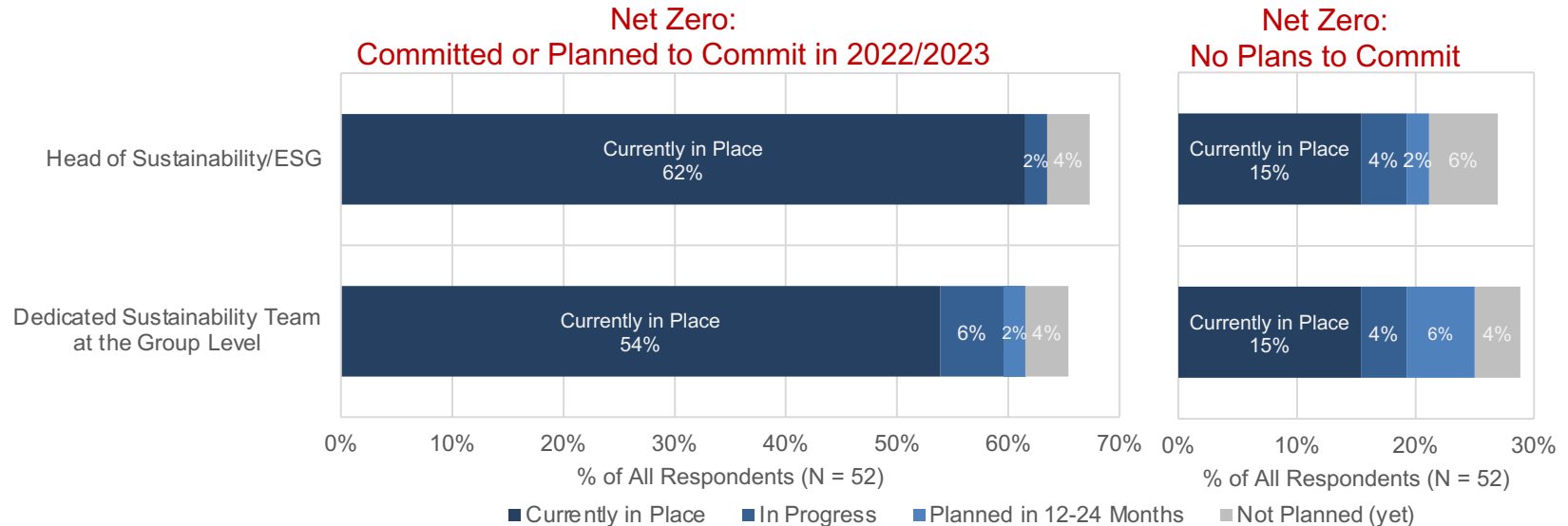
Areas Responsible for Integrating Climate Risk into Credit Risk Management Frameworks



Source: IACPM ESG & Climate Risk Management Frameworks 2022 | Question: Which areas within your firm are currently involved and/or responsible for integrating ESG & Climate Risk considerations into credit risk management frameworks? (Q3)

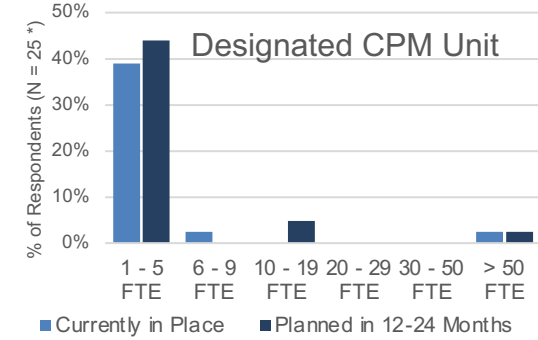
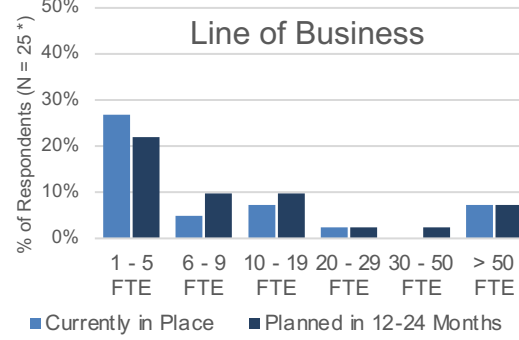
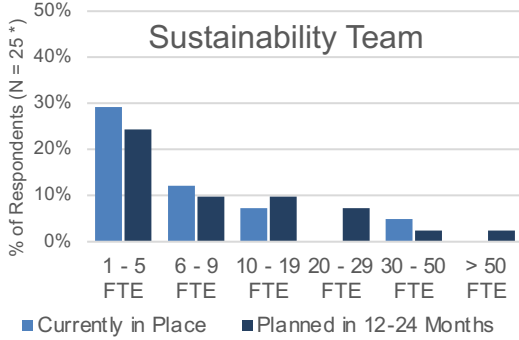
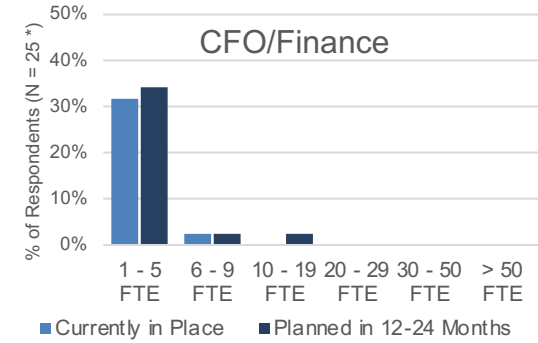
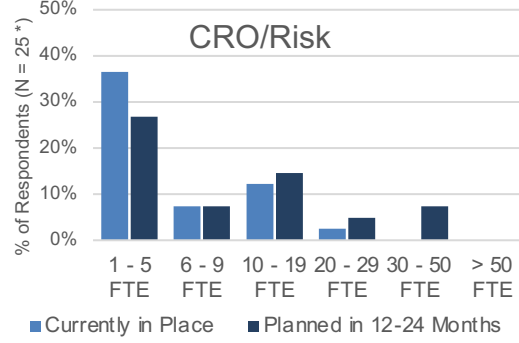
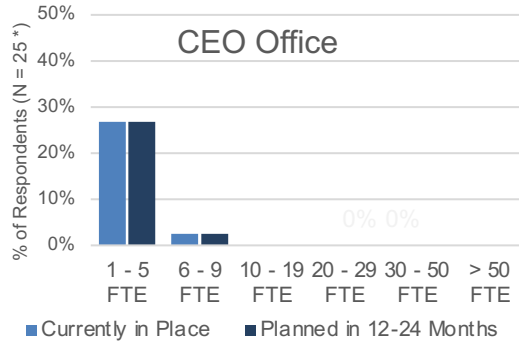
ESG & Climate Risk Governance Frameworks

Net Zero commitments influence the development of ESG & Climate Risk Governance Frameworks at participating firms. Differences can be observed between institutions which are committed or are planning to commit to Net Zero targets and those with no plans to commit. Some 80% of all respondents with Net Zero targets already have a Head of Sustainability/ESG as well as a dedicated Sustainability Team at the Group Level in place.



Source: IACPM ESG & Climate Risk Management Frameworks 2022 | Questions: Please indicate ESG & Climate Risk governance frameworks your firm has in place or is planning to establish over the next 12 - 24 months. Please indicate all that apply. (Q2) & Has your firm committed to Net Zero and/or set a Net Zero target? (Q11)

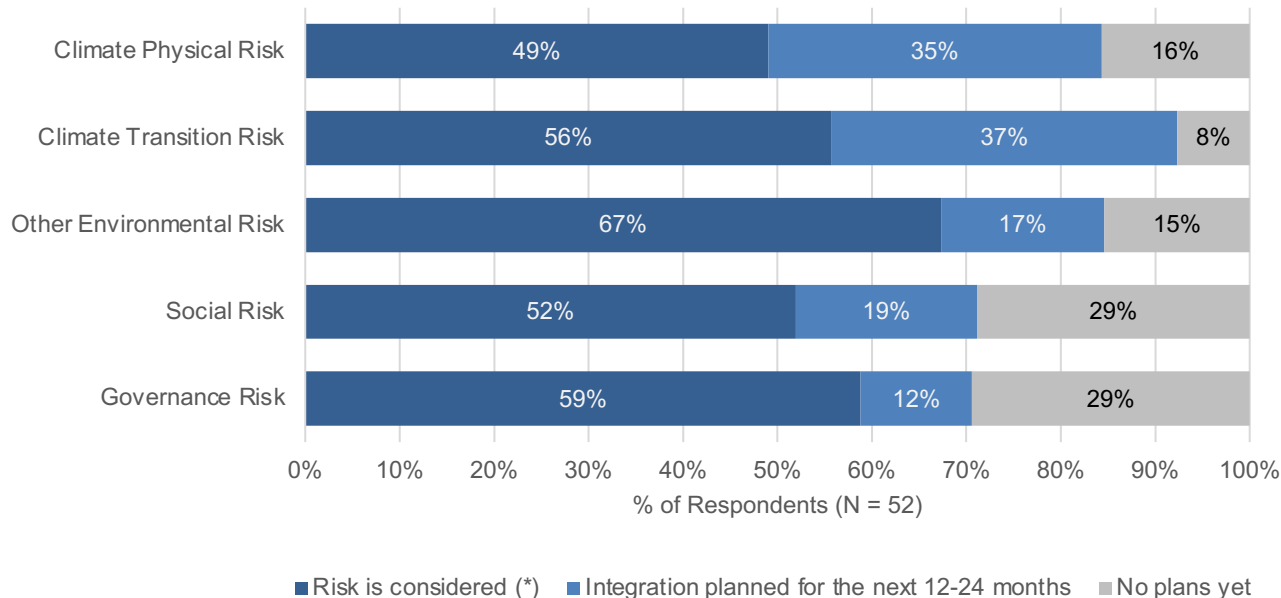
Banks' Estimated Headcounts for Climate Risk Integration



(*) About one third of respondents did not provide planned FTEs and are therefore excluded from the chart.

Source: IACPM ESG & Climate Risk Management Frameworks 2022 | Question: Please provide an estimated headcount (FTE) for each area involved and/or responsible for integrating Climate Risk considerations into credit risk management frameworks, now and going forward? (Q7)

Drivers in Decision Making: ESG & Climate Risk Factor Consideration in CPM Decision Making e.g., to Manage Concentrations



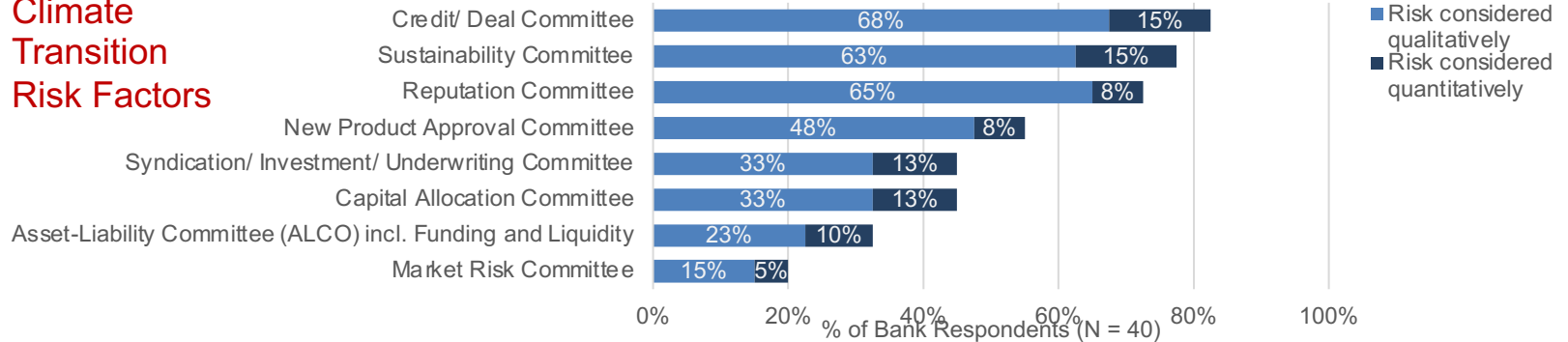
"A Credit Strategies framework takes into account ESG and climate risks/opportunities in terms of economic sectors (heatmap), counterparties (ESG scoring), as well as dedicated products/credit initiatives."
 Source: Survey Participant

"E, S, & G are considered mostly from a reputation risk perspective in more extreme cases where the decision will be made to decline lending / exit a relationship."
 Source: Survey Participant

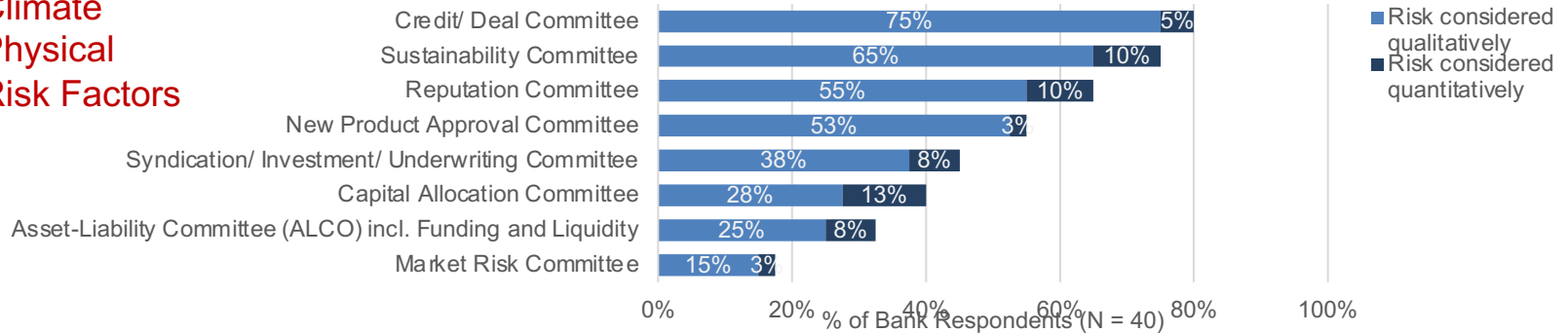
(*) See the following pages for a description of current approaches.
 Source: IACPM ESG & Climate Risk Management Frameworks 2022
 Question: Does your firm consider ESG & Climate Risk factors in CPM decision making, e.g., to manage concentrations? (Q4)

Bank Committees' Climate Risk Factor Consideration

Climate Transition Risk Factors



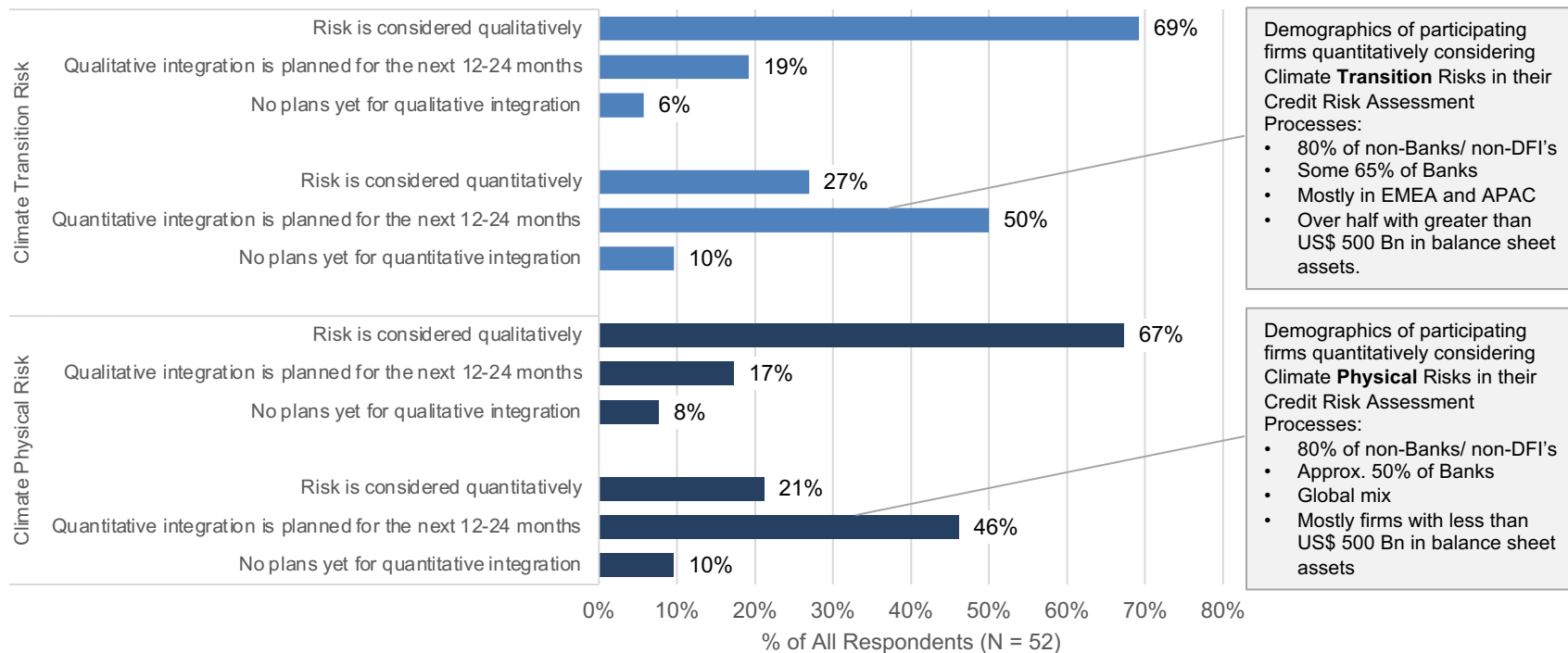
Climate Physical Risk Factors



Source: IACPM ESG & Climate Risk Management Frameworks 2022

Question: Which committees are currently considering Climate Risk factors in their decision making? (Q8)

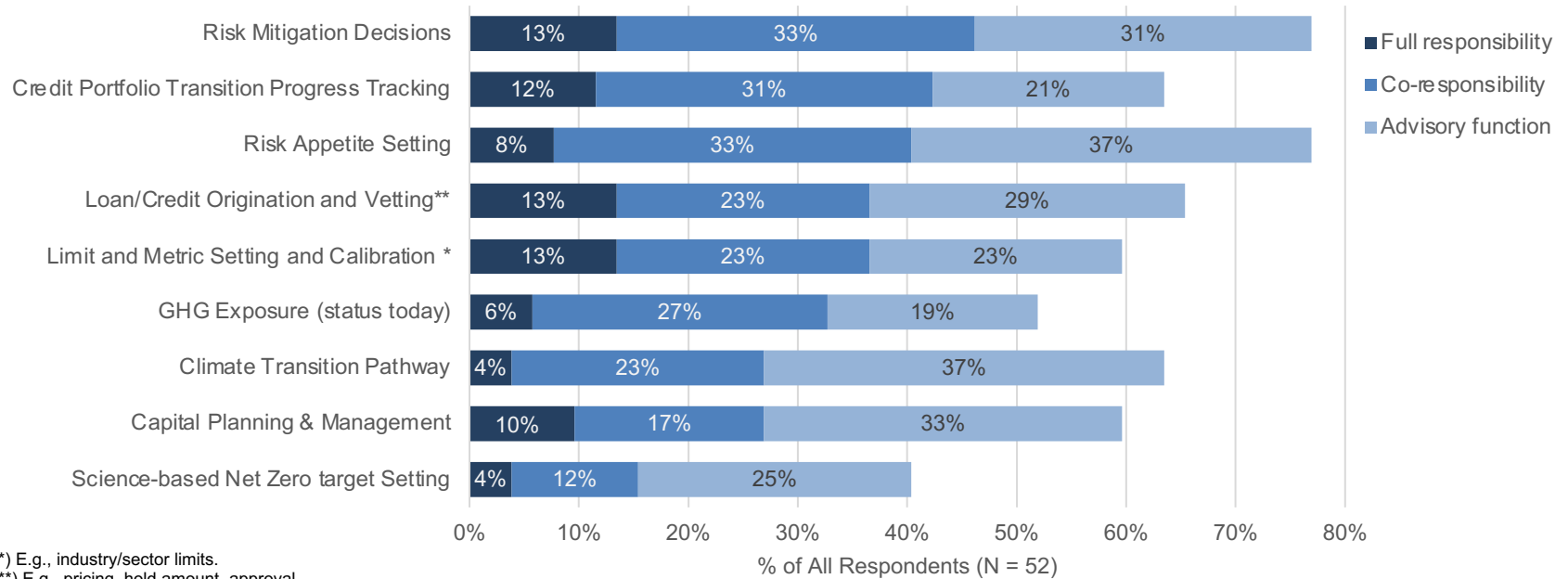
Climate Risk in Credit Risk Assessment Processes



Source: IACPM ESG & Climate Risk Management Frameworks 2022

Question: Does your firm currently consider Climate Risk factors in the credit risk assessment process, either quantitatively or qualitatively? (Q9)

Role of Credit Risk and Portfolio Management: CRPM's Involvement in Climate Risk Considerations

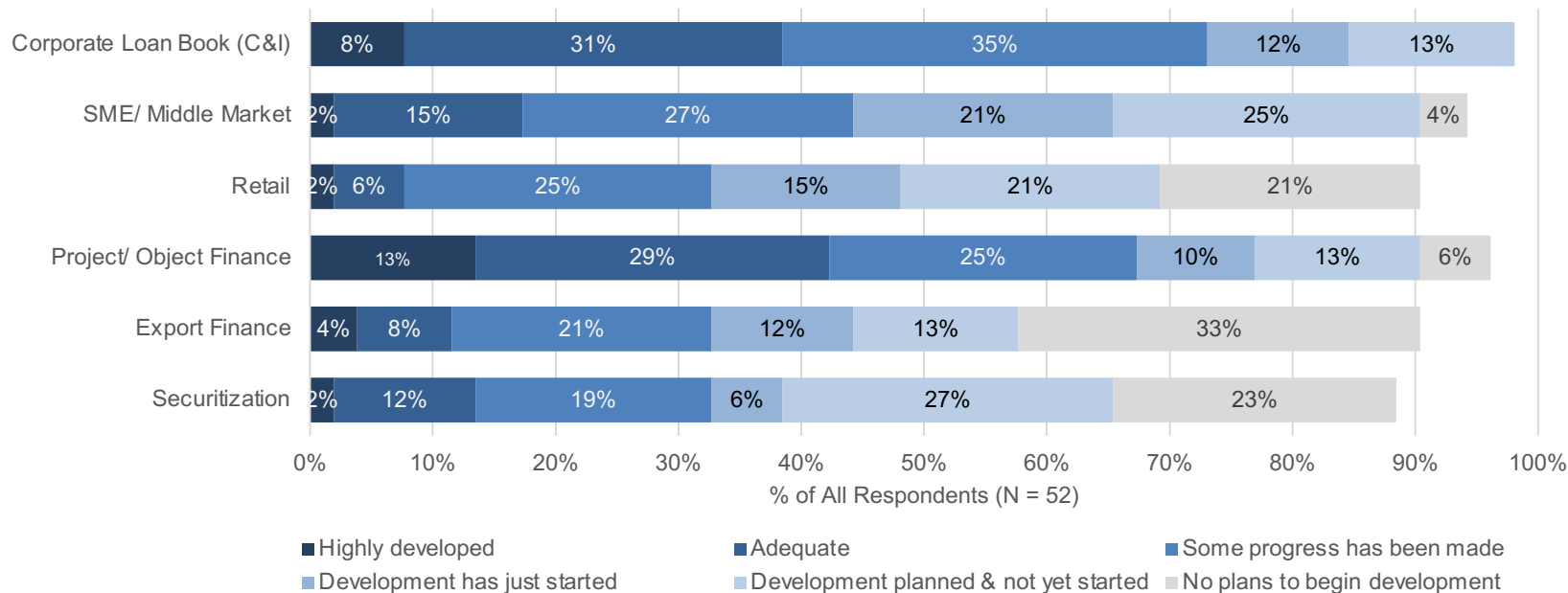


Source: IACPM ESG & Climate Risk Management Frameworks 2022

Question: Please indicate your firm's CPM function's level of involvement in Climate Risk considerations for the following areas. (Q10)

Climate Risk Management Frameworks' Level of Development

Survey Participants' Subjective Assessment - By Asset Classes

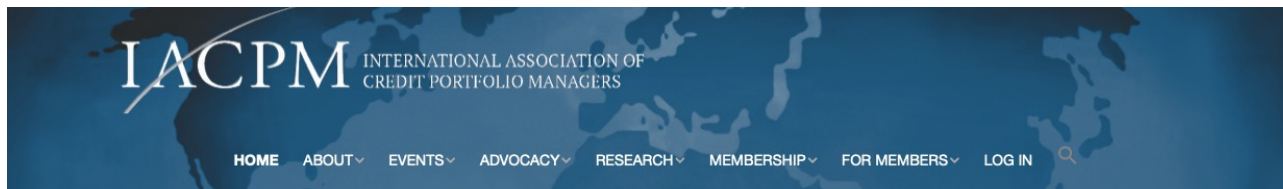


Source: IACPM ESG & Climate Risk Management Frameworks 2022 | Question: Using subjective assessment, please indicate your firm's level of development in integrating Climate Risk considerations into credit risk management frameworks for the following asset classes. (Q6)

Path Forward

- Firms are taking significant steps to address ESG and Climate in measurement and strategic decision-making.
- Challenges remain.
 - Data and methodologies are evolving
 - Stress testing scenarios vary across geographies and asset classes
 - Regulation differs across geographies and definitions/taxonomies are not consistent
- Opportunities abound as transition paths are defined, broader implications of E, S and G are explored, and as markets develop.

Resources



FALL CONFERENCE



IACPM's Virtual Fall Conference
November 17-19, 2021

[Learn More](#)

LATEST NEWS

Latest IACPM Credit Outlook Survey Forecasts Worsening Credit Conditions

October 18, 2021

Survey respondents to the latest IACPM Credit Outlook Survey are modestly less optimistic about future credit conditions. [READ MORE >](#)

UPCOMING EVENTS

IACPM collaborates with Euromoney on Securitisation in China Webinar

Wednesday, November 24 @ 4:00 pm - 5:00 pm

IACPM Virtual Tokyo Regional Meeting

Friday, December 17 @ 10:00 am - 12:00 pm

[View All Events](#)

LATEST RESEARCH

CPM Leadership and Resilience in the Credit Crisis

November 8, 2021

The IACPM published a White Paper on the findings of its biennial 2021 Principles and Practices in CPM member survey. [READ MORE >](#)

Website

IACPM website: www.iacpm.org

- Calendar of events
- Public documents
- Past member surveys (members only)
- Directory (members only)
- Library of past conference presentations (members only)

Member login ID requests: admin@iacpm.org

New on the Website:

[ESG, Climate Risk and Sustainable Finance Resources](#)

Weekly Brief sign up: www.smartbrief.com/iacpm



The banner features the IACPM logo on the left, the title "Weekly SmartBrief" in a large, bold font, and the subtitle "Essential News for Credit Portfolio Management Professionals" below it. On the right side, there is a dark blue button with the text "SIGN UP · FORWARD" in white.

CREDIT MARKETS



Banks lower standards for many loans in Q3

Lending standards for consumer credit continued to tighten in the third quarter, but banks more broadly began to lower standards for many commercial and real estate purposes as demand cooled. Just over 11% of banks saw weaker demand from large businesses, and 2.9% reported lower demand from smaller firms.

[ABA Banking Journal online](#) (11/6)



New money deals drying up for US leveraged loans

New money deals among US leveraged loans dropped to \$20.6 billion in October, down significantly from September's \$43 billion. Repurchases pushed October's total to \$70 billion.

