



WHITE PAPER

SUSTAINABLE LENDING

How to manage ESG considerations in credit underwriting – and still optimize profitability

Financial markets are preparing for one of the biggest transformations the world has seen in many years – not only the COVID-19 aftermath but also the unknown consequences of climate change, social and ethical concerns.

In 2015, two important milestones were achieved: governments around the globe adopted the UN 2030 Agenda for sustainable development, and signatories of the Paris Agreement committed to undertake ambitious measures to limit increases in global warming. Since then, legislators and world leaders have formed strategies and policies and taken action on economic activities with a significant environmental, social and governance (ESG) impact, gradually implemented over a defined timescale to reach the targets set out in these agreements.

Many financial services firms are closely following these developments, driven by three reasons: to prepare for expected regulations and standards around ESG, to support their own commitments to sustainability and to participate in the sustainable finance market.

What is sustainable finance?

Sustainable finance is financing activities that support economic growth while reducing pressures on the environment while considering social and governance aspects. ESG factors refer to both the financing itself and the related risk factors that may impact the financial system. Financial and corporate actors in the market will help mitigate such risks. That's why the financial sector is expected to play an extremely important role in financing whole economies at a new and more sustainable standard.

What does it mean for me?

When EBA published its guidelines on loan origination and monitoring in May 2020, it highlighted the importance of including ESG factors in your internal risk strategy and policies as well in the calculation of clients' creditworthiness. But EBA also emphasized the importance of lenders maintaining a solid credit life cycle management process, supported by modern IT infrastructure.

Internal Governance – Use digital technology to manage controls, processes and decision-making in your credit life cycle management, improving your risk profile, audit checks compliance and reporting

How can I build my internal governance framework more quickly?

FIS® Commercial Lending Suite enables you to accelerate your digital transformation with a digital-first experience that is analytics driven, cloud capable and API powered. It utilizes a range of artificial intelligence, machine learning and robotic process automation tools to support end-to-end credit origination, assessment and servicing, thus covering the full internal lending journey.

With an out-of-the-box digital lending approach, you can not only reduce loan decision times. You can also adopt a sustainable mindset and technology that makes you ready for change – ahead of your competitors.

- **Internal Governance** – Use digital technology to manage controls, processes and decision-making in your credit life cycle management, improving your risk profile, audit checks compliance and reporting
- **ESG data ingestion** – Automate data ingestion from external and internal sources through our open-API framework and supported by ML and OCR (optical character recognition) technology
- **Credit risk assessment** – Run qualitative and quantitative analysis of a company's credit risk ownership, mitigations and carbon emissions to help them reach their targets and lower their financial risk and credit risk – driving better pricing and more reliable returns over the term of credit financing
- **Alignment with EU taxonomy** – Compute EBA's green asset ratio (GAR) efficiently by assessing the alignment with the EU taxonomy on single loan level
- **Green supporting factor** – Reduce your capital consumption by understanding the impact of your lending activity and how sustainable investments and loans will help reach your target
- **Performance attribution** – Access in-life monitoring and measurement of financial and non-financial covenants, ratios and targets to understand any waiver, restructuring or termination needs
- **Scenario analysis** – Overlay micro and macro-economic factors to assess portfolio target setting and contingency planning through pre-deal commitment and in-life monitoring
- **Custom reporting** – Run management and analyst reports to highlight peer analysis, credit capacity and management actions, raising the reliability of portfolio actions

In addition, FIS Commercial Loan Origination embeds institution-specific ESG analysis into the lending process:

- **ESG Analyst:** A member of the deal team who can be assigned any tasks relating to ESG, including questionnaires, document capture, analysis and assessment.
- **ESG questionnaire:** A tool that can be deployed in Commercial Loan Origination and routed to the ESG Analyst for completion at any stage prior to decisioning, embedded into the digital credit memorandum prior approval.
- **ESG assessment:** This can define quantitative scoring models to capture financial/KPI inputs and calculate an ESG rating based on your methodology.
- **ESG-related analysis:** The analysis can be captured during the assessment phase of the deal and incorporated into the credit memo and any other documentation used by credit approvers to sign off on a deal.

Now you have the flexibility to incorporate your ESG analysis into decision-making. Whether through business rules or expert judgement, and whether at the customer or counterparty level, you can track ESG metrics alongside more traditional credit measures for monitoring performance throughout the life of a deal.

How can I tell if my underwriting process will efficiently comply?

Supervisory expectations are clearly set out: the EU taxonomy, NFRD, SFDR, EBA's green asset ratio, as well as an ESG risk analysis will be key parts of the credit processes of financial institutions. New and unusual data requirements will need to be fulfilled within that process. However, process efficiency is key to succeeding in the market.

Together with our partner **d-fine**, the leading risk management consultancy in Europe, we can identify specific gaps in your underwriting process and any optimization potential by:

- **Performing a GAP analysis on data and processes**
- **Defining and running an implementation plan**
- **Delivering solutions for improving process efficiency**

How can I learn more?

Watch the video: **FIS Commercial Lending Suite**
 Watch the webinar: **FIS Credit Portfolio Monitoring**
 (password FISca2020)
 Explore more: **Commercial lending insights**

About FIS

FIS is a leading provider of technology solutions for merchants, banks and capital markets firms globally. Our more than 55,000 people are dedicated to advancing the way the world pays, banks and invests by applying our scale, deep expertise and data-driven insights. We help our clients use technology in innovative ways to solve business-critical challenges and deliver superior experiences for their customers. Headquartered in Jacksonville, Florida, FIS is a Fortune 500® company and is a member of Standard & Poor's 500® Index.

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PAYS, BANKS AND INVESTS™**