E&S management systems (ESMS) and BI Management Systems (BIMS) are well established as good practice for Financial Institutions.

Financial Institutions (FIs) need to proactively respond to changes that may expose their operations and activities to environmental and social (E&S) and business integrity risks so as to ensure that their products and services remain relevant and competitive in changing market conditions. Emerging E&S risks such as climate change, data security and privacy, cyber security, client protection and welfare, human rights and modern slavery, gender, and inequality can create material and near-term risks for FIs. Similarly, changing sanction regimes, new fraud typologies, increasing use of electronic-money and cyber-crime present challenging financial crimes risks.

These risks, combined with increased regulations imposed by central banks and other regulatory bodies, as well as more expectations from other stakeholders, are placing additional pressure on FIs to understand and comply with changing E&S and financial crime laws in the jurisdictions they and their clients operate in. The accessibility of information through digital media and other platforms means that FIs are being held more accountable for their actions and are required to be transparent about how they intend to respond to these emerging issues and report on their E&S and BI performance.

While these issues are potentially creating new financial, legal, operational, and reputational risks for FIs, they equally provide an opportunity for FIs to address E&S and BI aspects in transactions and to create products and services that drive change in client behaviour, respond to evolving market conditions and create broader opportunities for the organisation and its stakeholders. Significant advancements in the use of technology and innovative ways FIs use data have also created the way for FIs to effectively manage E&S and BI risks and opportunities.

An FI’s E&S and BI management system provides a consistent framework to proactively incorporate and manage E&S and BI aspects in day-to-day business activities and across the FI transaction cycle. This minimises or limits exposure to existing and new material risks and enhances opportunities where possible.

What are the key benefits for an FI to have an ESMS?

A well designed and properly implemented ESMS adds value to the FI and its stakeholders by:

- Ensuring that E&S factors are part of the decision making and monitoring processes throughout the transaction cycle (e.g. application, approval, structuring, monitoring, and reporting).
- Providing a framework to identify and manage E&S risks at both the FI, client, or transaction level.
- Creating a framework to identify and realise E&S value-add opportunities at both the FI and client level and integrating these considerations into core business (refer to E&S Value Add Sections for further guidance).
- Providing clarity for all stakeholders on the E&S standards and sustainable business performance that the FI intends its clients to meet.
- Providing a framework through which E&S impact (including specifically climate change and emissions data reporting) can be collated and verified.
- Offering a framework to engage with key internal and external stakeholders (e.g. staff, management, investors/lenders, industry bodies, associations, etc.) on E&S matters.
- Helping the FI to capture the financial value of E&S factors, to record the lessons of its team's experience, and to demonstrate the E&S track record to new investors or clients.

Alongside an ESMS, FIs should design and implement a BI management system to manage financial crime issues including, but not limited to, preventing money laundering, terrorist financing, sanctions breaches, fraud, tax evasion and bribery and corruption (See FI BI Management Systems section).

While this section focuses on E&S risks, impacts, and opportunities associated with FIs' portfolios, there are also E&S and BI aspects related to the FI's own business activities that should be considered. These may include risks related to labour and working conditions (e.g. terms of employment, bullying and harassment, bribery, gender equality, contractor management), emergency preparedness and response (including customers visiting the branches, life and fire safety at offices and branches, road and travel safety), energy and resource efficiency, development of a robust internal grievance and whistleblowing mechanism etc.