

Assessing The Climate Transition Plans of Indian Financial Institutions

Analysis and insights from CDP 2023 reported data

CDP Report | April 2024



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Key Insights



94% of the 15 Indian financial institutions

(FIs) disclosing through CDP in 2023 reported having board-level oversight of climate transition plans.



47% disclosed having qualitative & quantitative scenario analysis

in place to inform their business strategies



Only one FI set a portfolio emissions reduction target

that covers their financed emissions – ie Scope 3, Category 15: Investments. This is a vital gap in addressing the ambition and trajectory of financial institutions and their portfolios in the climate transition.



Only 47% of FIs

have assessments covering climate-related risks in their banking portfolios and the rest have failed to examine the issue closely.



40% of FIs

reported having a public commitment or position statement to conduct their engagement activities in line with the goals of the Paris Agreement.



Only 27%

have reported that they have a climate transition plan which aligns with a 1.5°C world.



Over INR 1,007 billion

of potential financial losses stemming from climate-related risks has been identified by FIs. However, this is likely to be severely underestimated.



INR 28 billion

is the self reported cost of the response to counter the risk and is 36x less than the potential financial impact of the risk, thus building a compelling case for transitioning portfolios in alignment with net-zero.



Only 1 bank reported having assurance for their financed emissions –

closing this gap will be important to provide stakeholders with confidence and to push them to catch up in the race with their global peers.



INR 1,151 billion in financial opportunities

have been identified by reporting FIs while the cost to realise this opportunity stand at INR 86.2 billion.



Introduction



Introduction



It is also important to note that CDP remains committed to delivering robust environmental disclosure to the market and reducing the reporting burden on entities through alignment, incorporation and integration of relevant standards and frameworks and its alignment with IFRS S2 standard is a testament of this fact. ▼▼

The financial sector plays an instrumental role in facilitating the transition to a net-zero economy through its financing and facilitation of real economy activities. It is therefore crucial for financial institutions (FIs) to disclose how they embed environmental considerations across their business activities in order to foster a transparent and comparable baseline for action. With the evolving regulatory landscape, mandatory environmental disclosures along with credible transition plans are likely to gain prominence.

To encourage FIs across the globe to report on their environmental footprint, CDP offers a TCFD-aligned climate change questionnaire and from 2024 onwards CDP will incorporate the IFRS S2 standard in its questionnaires. The TCFD recommendations highlight the important role of the financial sector as flag-bearers of environmental disclosures. TCFD-aligned climate disclosure by the financial sector enables investors, central banks, regulators/supervisors, and other relevant stakeholders to better understand the concentrations of carbon-related assets and their portfolio exposures to environmental risks. It is also important to note that CDP remains committed to delivering robust environmental disclosure to the market and reducing the reporting burden on entities through alignment, incorporation and integration of relevant standards and frameworks and its alignment with IFRS S2 standard is a testament of this fact.

Furthermore, it is imperative for FIs to have a credible climate transition plan in place since financial institutions are the bedrock of a sound economic system. The strategic importance of transition plans to prudential supervisors has been acknowledged¹ by prominent central bankers, as a mechanism for banks to step up their risk management capabilities to avoid any systemic risk resulting in severe economic downturn.

¹ Overcoming the tragedy of the horizon: requiring banks to translate 2050 targets into milestones (europa.eu)



CDP recognizes that climate transition plans are a vital mechanism for transition to a 1.5°C-aligned world. This is why transition planning features in the CDP 2021–2025 strategy, placing transparency and accountability at its heart. ▼▼



Climate transition plans are a vital tool to demonstrate to capital markets and stakeholders that an organization is committed to achieving a 1.5°C pathway, and that its business model will remain relevant and profitable in a net-zero carbon economy.

Transition plans enable an organization to outline how it will deliver on its strategy to align with the latest and most ambitious climate science recommendations and keep themselves in line with or ahead of the regulators' climate-related supervisory expectations.

A climate transition plan is a time-bound action plan that clearly outlines how an organization will pivot its existing assets, operations, and entire business model towards a trajectory that aligns with the latest and most ambitious climate science recommendations, ie, halving greenhouse gas (GHG) emissions by 2030 and reaching net-zero by 2050 at the latest, thereby limiting global warming to 1.5°C.²

To summarize, climate transition plans are a vital tool to demonstrate to capital markets and stakeholders that an organization is committed to achieving a 1.5°C pathway, and that its business model will remain relevant and profitable in a net-zero carbon economy. Expectations surrounding credible transition plans are at an early stage of convergence and it is understood that FIs may be at different phases in their process of implementing credible transition plans, utilizing guidance and frameworks that have emerged over the past two years.

CDP recognizes that climate transition plans are a vital mechanism for transition to a 1.5°C-aligned world. This is why transition planning features in the CDP 2021–2025 strategy, placing transparency and accountability at its heart. CDP's disclosure platform, disclosure guidance and research seek to incentivize the disclosure of credible climate transition plans as they catalyze ambition from disclosure and oversight to action plans.

Against this backdrop, this report highlights the progress and the status of Indian FIs on their journey to develop credible climate transition plans³. **15 FIs (11 banks, one insurance sector, three asset managers) have been analyzed based on the data they disclosed through CDP in the 2023 cycle. These FIs hold INR 36,212.26 billion market capitalization in India which is quite sizable.** The report captures disclosure trends related to key elements involved in developing a credible climate transition plan⁴, such as the information about the FI's governance model, use of scenario analysis, Scope 1, 2, and 3 accounting (and verification status), policy engagement, management of risks and opportunities, value chain engagement, and use of low-carbon initiatives including targets and financial planning. These elements are prime when looking at a larger picture of transition planning of an individual organization (whether an FI or a member of the real economy). Given the holistic understanding of an entity's decarbonization pathway that climate transition plans facilitate, these will be instrumental in defining the climate action plan for financial sector.

Disclosing FIs hold INR
36,212.26
billion
market capitalization in India

³ The findings of this report pertain to the data disclosed by 15 Indian financial institutions only. A few insights relate to the subset of 14 FIs that reported against the more detailed financial services sector-specific questionnaire
⁴ CDP-Technical-Note-FS-Transition-Plans-and-Net-Zero-Commitments.pdf

The Framework for Climate Transition Plans

2

The Framework for Climate Transition Plans⁵



Natural ecosystem health is restored, thereby enabling a thriving economy that works for people and planet in the long term.

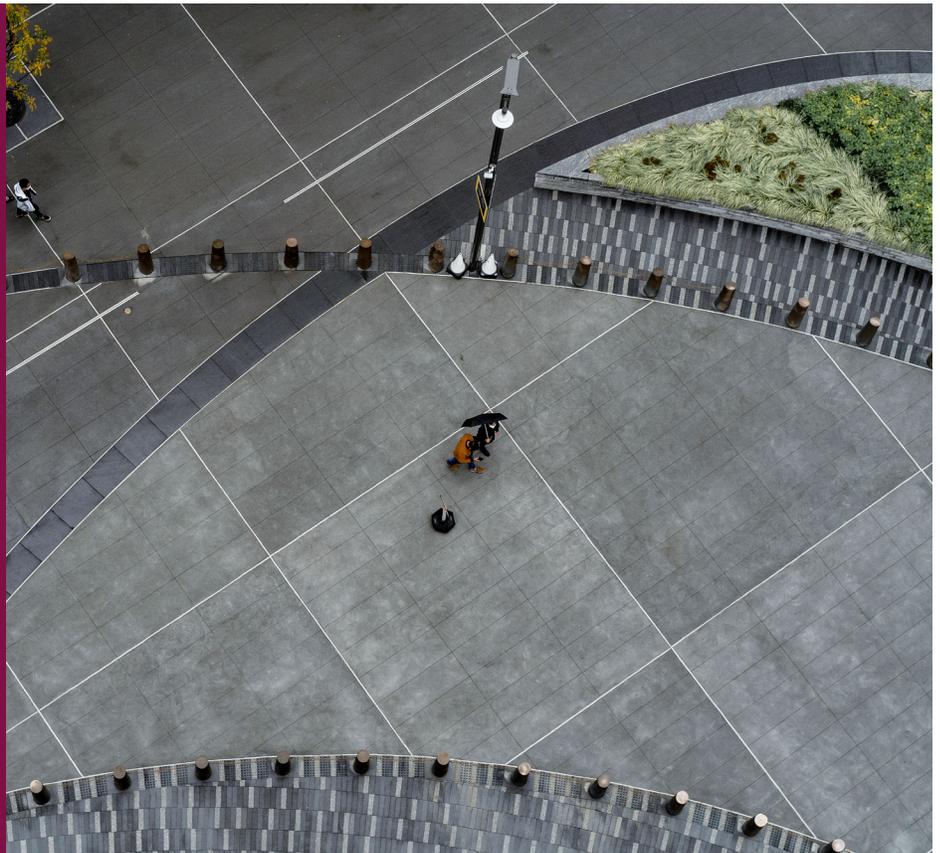
FIs must continually iterate/update their transition plans in line with latest science; disclosing a plan annually is an essential part of remaining on track and accountable. CDP's climate change questionnaire collects comprehensive data on all elements of a credible climate transition plan. CDP uses its global reporting platform and datasets to continually refine and develop guidance on transition plans. CDP's position in the global ESG disclosure ecosystem further positions CDP to track progress against best practices in transition planning.

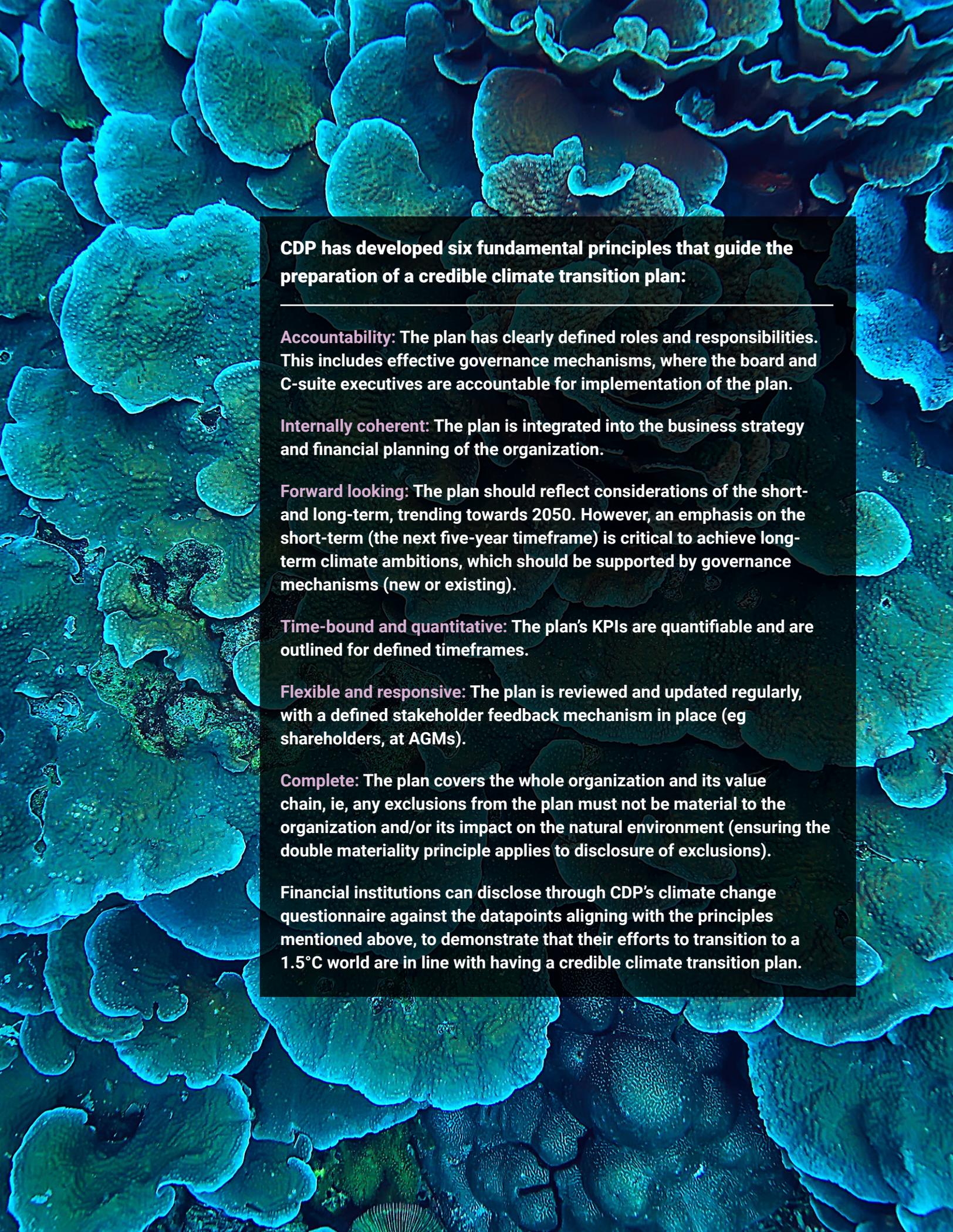
5 CDP_technical_note_-_Climate_transition_plans.pdf

Transitioning refers to taking actions that align a business model with a world in which two key outcomes are pursued:

- ▶ The global average temperature is allowed to rise by no more than 1.5°C above pre-industrial levels; and
- ▶ Natural ecosystem health is restored, thereby enabling a thriving economy that works for people and planet in the long term.

Read CDP's Climate Transition Plans technical note [here](#).





CDP has developed six fundamental principles that guide the preparation of a credible climate transition plan:

Accountability: The plan has clearly defined roles and responsibilities. This includes effective governance mechanisms, where the board and C-suite executives are accountable for implementation of the plan.

Internally coherent: The plan is integrated into the business strategy and financial planning of the organization.

Forward looking: The plan should reflect considerations of the short- and long-term, trending towards 2050. However, an emphasis on the short-term (the next five-year timeframe) is critical to achieve long-term climate ambitions, which should be supported by governance mechanisms (new or existing).

Time-bound and quantitative: The plan's KPIs are quantifiable and are outlined for defined timeframes.

Flexible and responsive: The plan is reviewed and updated regularly, with a defined stakeholder feedback mechanism in place (eg shareholders, at AGMs).

Complete: The plan covers the whole organization and its value chain, ie, any exclusions from the plan must not be material to the organization and/or its impact on the natural environment (ensuring the double materiality principle applies to disclosure of exclusions).

Financial institutions can disclose through CDP's climate change questionnaire against the datapoints aligning with the principles mentioned above, to demonstrate that their efforts to transition to a 1.5°C world are in line with having a credible climate transition plan.

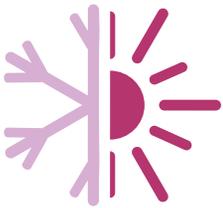


Decoding Climate Transition Plans of Financial Institutions Through Disclosure Data

3

A large, white, bold number '3' is positioned in the lower right quadrant of the image. The background is a vast, arid desert landscape with rugged, rocky terrain and distant mountains under a hazy, orange-tinted sky, suggesting a sunset or sunrise. The overall color palette is monochromatic, dominated by various shades of orange and brown.

Decoding Climate Transition Plans of Financial Institutions Through Disclosure Data



(a) Governance

Elements of TCFD recommendations on governance

- ▼ Describe the board's oversight of climate-related risks and opportunities.
- ▼ Describe management's role in assessing and managing climate-related risks and opportunities.

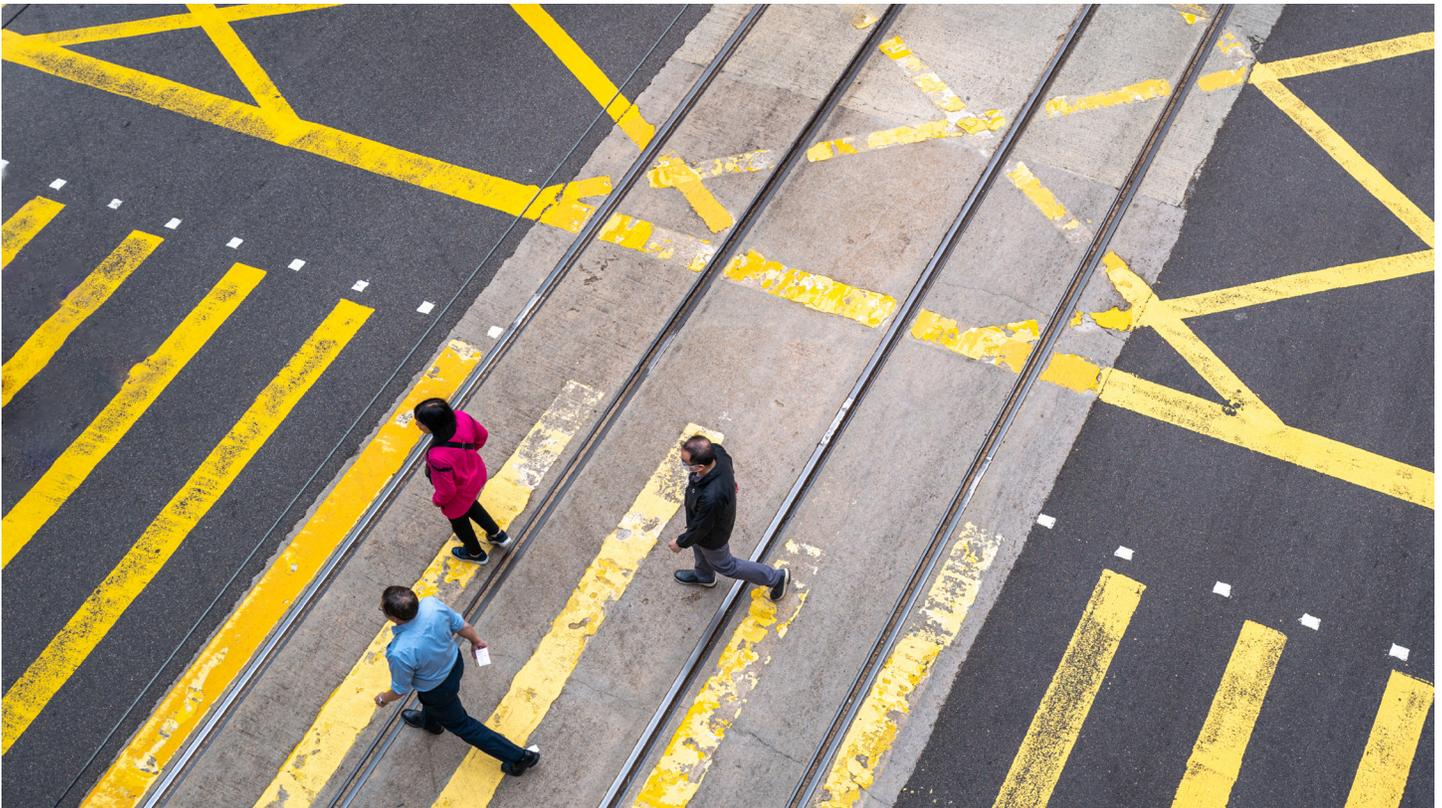
This section covers the reporting landscape of Indian FIs in terms of their governance structure.

It is highly important to understand to what level an organization has board-level oversight on the climate transition plan, and to understand how defined the governance mechanism is in place to ensure implementation of the plan in steering business strategy towards a 1.5°C aligned trajectory.

Addressing climate change requires specific expertise related to climate change and its impacts, as well as the potential direct and indirect effects on the business. Ensuring this capability exists within governance structures indicates an organization's competence in delivering on its climate transition plan, and it increases the chance of success.

CDP identifies that executive management has responsibility for⁶:

- ▼ Developing a climate transition plan; and
- ▼ Frequently reporting to the board on progress towards realizing the plan's ambitions.



86%

reported that ESG- and climate-related issues are integrated in their risk management framework.

Insights from the data

- ▶ 94% of all disclosing FIs reported on having board-level oversight of climate transition plans.
- ▶ 86% reported that ESG- and climate-related issues are integrated in their risk management framework.
- ▶ To incentivize conscious action and commitment in implementing the plan, it is recommended under TCFD that executive management incentives are linked to climate performance indicators.
 - 80% of all disclosing FIs reported that they provide incentives for the management of climate-related issues while the other 20% reported that they do not plan to introduce incentives in the next two years.

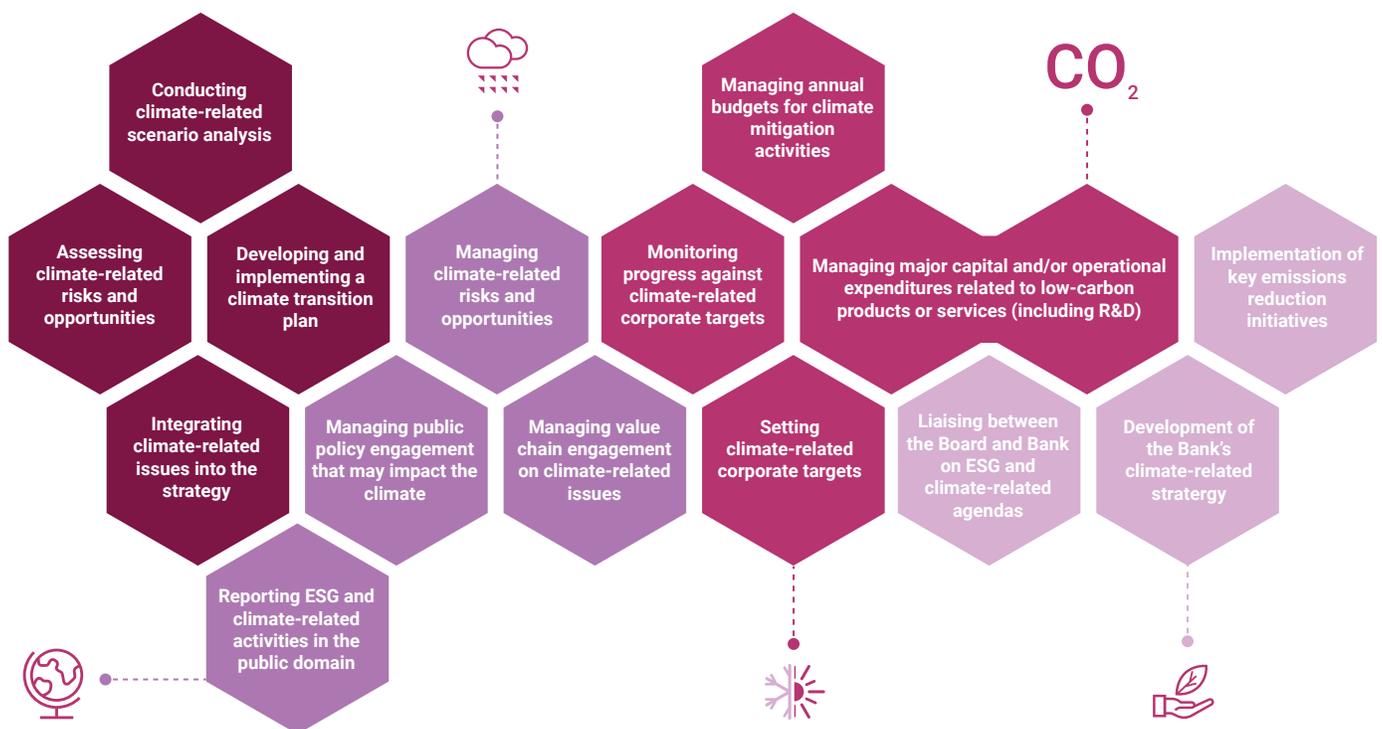
Of the 15 Indian FIs that disclosed in 2023,

47%

disclosed having qualitative & quantitative scenario analysis in place to inform their strategies.

- ▼ 73% reported that they provide monetary rewards (ie bonuses, public recognition, shares etc) as an incentive to the management taking care of the climate-related issues. Among FIs not providing any monetary rewards, employees are given some sort of public recognition in the form of awards, employee awareness campaigns, and/or training programs on climate-related issues.
- ▼ 80% reported that their scope of board-level oversight spans across climate-related risks, opportunities, and impacts embedded in the FI's banking, investment and underwriting activities, as well as in each FI's direct operations.
- ▼ All disclosing FIs reported that they have aligned their risk management framework to their ESG framework and they have Representatives of senior management⁷ from Sustainability/Risk/ ESG/CSR committees entrusted with responsibilities for climate-related issues.
- ▼ Significant climate-related activities entrusted to upper management include:

7 Chief Risk Officer, CSO, CEO, CFO, Director on Board, Board Chair, Head I&S and Sustainability





A climate transition plan should be underpinned by robust scenario analysis to identify potential substantive climate-related risks and opportunities, enhance critical strategic thinking, and help a FI understand how it might perform in different future states. 

(b) Scenario analysis⁸

Elements of TCFD recommendations

- ▼ Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario⁹.

A climate transition plan should be underpinned by robust scenario analysis to identify potential substantive climate-related risks and opportunities, enhance critical strategic thinking, and help a FI understand how it might perform in different future states. **This section covers the reporting landscape of Indian FIs in terms to their uptake of scenario analysis as a means to guide their transition strategy.**

Insights from the data

- ▼ It is best practice to use both quantitative and qualitative scenarios during the scenario analysis process. Of the 15 Indian FIs that disclosed in 2023, 47% disclosed having qualitative and quantitative scenario analysis in place to inform their strategies.
- ▼ 6% of FIs use qualitative scenario analysis but plan to add quantitative scenarios in the next two year. However, using both qualitative and quantitative scenarios are considered as the best practice.
- ▼ 20% reported that they do not use scenario analysis as of now but anticipate using it in the next two years.
- ▼ However, 20% disclosed they do not anticipate doing so in the next two years.
- ▼ 6% disclosed using only qualitative scenario analysis.

⁸ Scenario analysis is used as a strategic tool to inform the development of the climate transition plan, based on several potential future climatic states. Scenarios are stories that have been methodically developed for the future, and which shed light on the decisions that we need to make today. Thorough scenario analysis uses rigor and method to enable decision makers to evaluate potential outcomes based on a variety of assumptions, and to understand how adjusting one or more of these variables impacts the organization's business.

⁹ While TCFD recommendation focuses on a 2°C or lower scenario, CDP's questionnaire aims at understanding whether the entity uses climate-scenario analysis to inform its strategy (see C3.2 from CDP's climate change questionnaire for more information: ([Guidance.cdp.net](https://www.cdp.net/en/guidance))). The temperature alignment informed supports our assessments of the disclosure of a credible transition plan, which to CDP, involves an alignment to a 1.5 °C scenario.



Only 58% use physical climate scenarios and 42% use transition climate scenarios.

- ▶ To prepare for the physical risks and transition risk of climate change, FIs need to conduct climate risk assessments in order to be well prepared ahead of time. These should involve projection modeling of a range of possible scenarios to assess how future weather events, sea level rises, droughts, evolving policy regulations etc will affect the operations of an organization. 58% use physical climate scenarios and 42% use transition climate scenarios. Physical risks can be event-based or longer-term climate pattern shifts, and can have direct financial implications for organizations, or indirect impacts including supply chain disruption. Transitional risks arise due to addressing the mitigation and adaptation requirement in the form of policy, legal, technology, market changes.

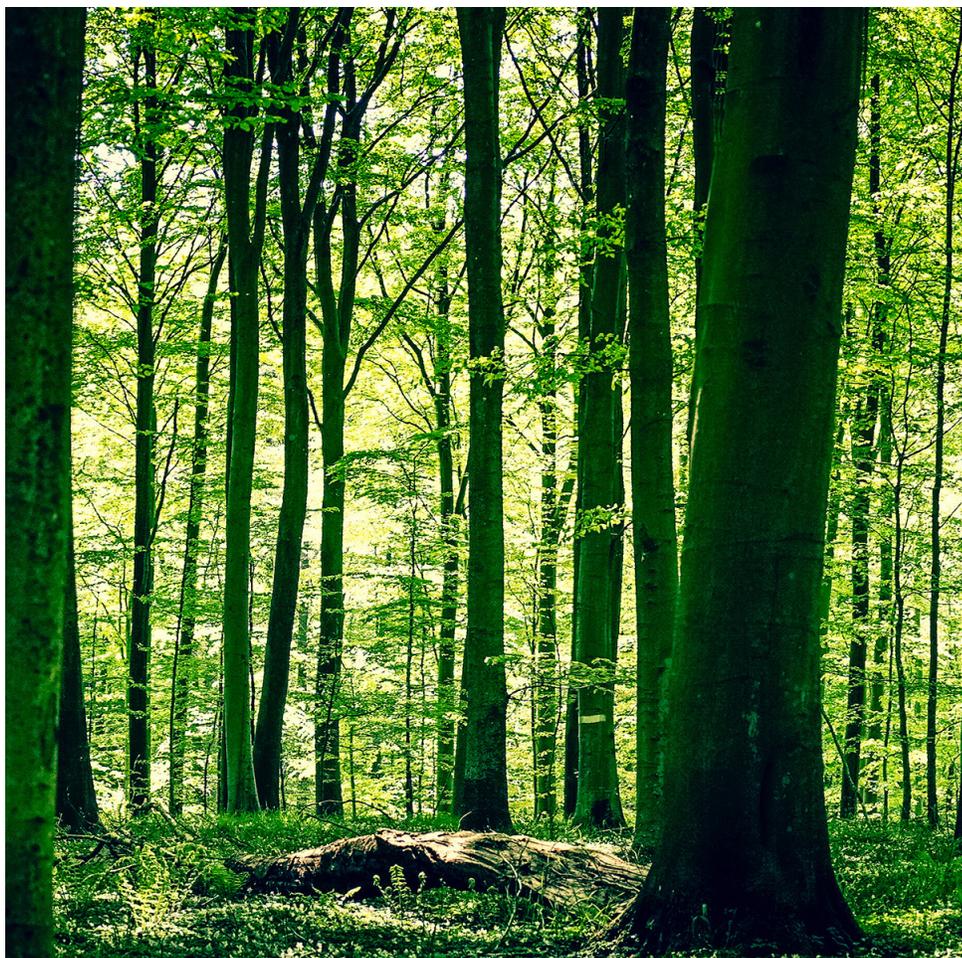
One of the leading Indian FIs in the life insurance sector (which does not use scenario analysis) did quote the relevance of using scenario analysis to inform strategy, and that they are committed to evolving their approach. The bank reports understanding the benefits of scenario analysis in assessing potential climate risks and opportunities. As part of their ongoing efforts to enhance sustainability practices, they may explore the implementation of climate-related scenario analysis in the future. This will enable them to make informed decisions and better align their strategies with the challenges and opportunities presented by climate change.

▼ **Key highlight:**

Like other central banks with a mandate to ensure financial stability, the Reserve Bank of India can play an instrumental role in driving the uptake of transition planning among Indian FIs. Disclosing FIs indicate that their strategy and activities with respect to scenario analysis will be formulated in alignment with RBI instructions and guidelines. Banks report that the limited use of scenario analysis is in part because they are waiting for clear direction from RBI. This hesitancy provides a compelling example of Indian FIs' reliance on strong regulatory movements before taking further climate action.

▼ Most banks use scenario analysis as part of their internal risk management process to assess portfolio exposure to climate-related risks and opportunities. This is consistent with the fact that efforts to mitigate and adapt to the uncertainties surrounding climate change will need to be ramped up. Historical analysis alone will not sufficiently cover the changing landscape of the transition to a low-carbon economy, but more futuristic scenarios will be needed in the coming times to identify potential substantive climate-related risks and opportunities.

It is critical that organizations engaged in climate transition planning implement scenario analysis as an important strategic planning tool. However, the data reveals that even among FIs that are using scenario analysis, the coverage of that analysis is lacking and that this may leave them exposed to undetected risks.





27%

reported having a climate transition plan which aligns with a 1.5°C world.

(c) Strategy to achieve net-zero

As mentioned in the previous section, an organization’s climate transition plan should be aligned with a 1.5°C world to signal climate ambition, be publicly available to demonstrate transparency, integrated into the business strategy to fulfil the principle of internal coherence and have a defined mechanism to incentivize collection of shareholder feedback.

Organizations can explain how climate related risks and opportunities influenced their strategy and climate transition plan, specifically in areas of products/services, value chain, investment in R&D and operations.

This section covers the reporting landscape of Indian FIs in terms of their strategy to align with net-zero by identifying the impact of climate related risks and opportunities on their business strategy/operations.



Insights from the data

▼ 53% reported that that their organization’s strategy does not include a climate transition plan that aligns with a 1.5°C world. However, their strategy has been influenced by climate-related risks and opportunities, and they are in a phase of developing a climate transition plan within two years.



15%

reported that they have exclusion policies for industries and activities exposed or contributing to climate-related risks.



54%

include climate-related covenants in financing agreements while the rest do not see this as an immediate priority to include in their strategy.

- 20% reported that neither does their organization's strategy include a climate transition plan that aligns with a 1.5°C world, nor do they plan to develop a climate transition plan within two years.
- 27% reported having a climate transition plan which aligns with a 1.5°C world.
- 93% of FIs have disclosed that climate-related risks and opportunities have influenced their strategy in the respective business area such as products and services, investments in R&D, supply chain/value chain and operations.
- Policy framework for portfolio activities that include climate-related requirements for clients/investees, and exclusion policies:** 31% reported that their framework includes both policies with climate-related client/investee requirements and climate-related exclusion policies while 23% reported that their policies include climate-related requirements that clients/investees need to meet.
- 15% reported that they have exclusion policies for industries and activities exposed or contributing to climate-related risks.
- 15% reported that they plan to include climate-related requirements and/or exclusion policies in their policy framework in the next two years.
- Portfolio coverage of policy:** 46% of FIs reported that their banking portfolio is to an extent (ranging from 20% to 100%) compliant with internal policies that include climate-related requirements for their clients/investees, while 15% reported that their investing portfolio is 100% compliant with the internal policies. These policies include
 - credit/lending policy;
 - ESG policy for lending,
 - proxy voting;
 - sustainable/responsible investment policy,
 - stewardship policy among others.
- 54% include climate-related covenants in financing agreements while the rest do not see this as an immediate priority to include in their strategy. These covenants primarily refer to compliance with the policies; purpose or use of proceeds clause which refers to sustainable project, legal mandate to obtain third party verification; and minimum level of green assets mandated.

▼▼
CDP provides an opportunity for FIs to disclose the alignment of their financial planning with their climate transition plan in the reporting year and at milestone years '2025' and '2030' ▼▼

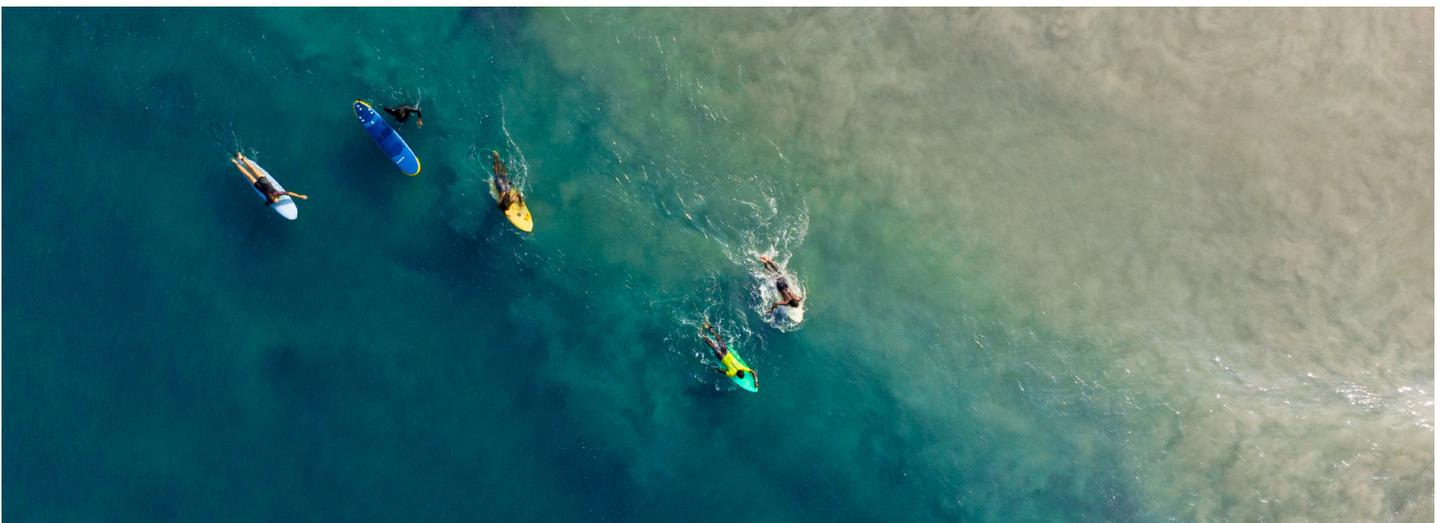
(d) Financial planning

Financial planning is also a crucial element of transition as it demonstrates that a financial institution is aligned with climate goals (as elaborated in its climate transition plan), and that it will be relevant (ie profitable) in a 1.5°C world. The clear trend among emerging and established frameworks is to recommend organizations to disclose financial planning information to report on the impacts of climate-related risks and opportunities on their business and strategy.

CDP provides an opportunity for FIs to disclose the alignment of their financial planning with their climate transition plan in the reporting year and at milestone years '2025' and '2030'¹⁰.

Financial details may describe revenue, CAPEX, and OPEX projections which are crucial for realizing the plan's ambition. FIs can develop their low-carbon products or services portfolio over time to signal how they intend on transitioning their existing revenues, operations and entire business model towards a 1.5°C trajectory. **This section covers the reporting landscape of FIs in terms to their financial planning.**

¹⁰ Milestone 2030 is a term used to describe a set of goals and targets that various organizations have set for themselves to achieve by the year 2030. These goals are related to 17 goals defined by the United Nations, which include ending poverty, zero hunger, good health and well-being, quality education, gender equality, clean water and sanitation, affordable and clean energy, decent work and economic growth, industry, innovation and infrastructure, reduced inequalities, sustainable cities and communities, responsible consumption and production, climate action, life below water, life on land, peace, justice and strong institutions, and partnerships for the goals. An important milestone will be reached in 2025 when the United Nations turns 80 and the period covered by the present Medium-Term Strategy comes to an end.





20%

identified alignment with a sustainable finance taxonomy



7%

identified alignment with the climate transition plan.



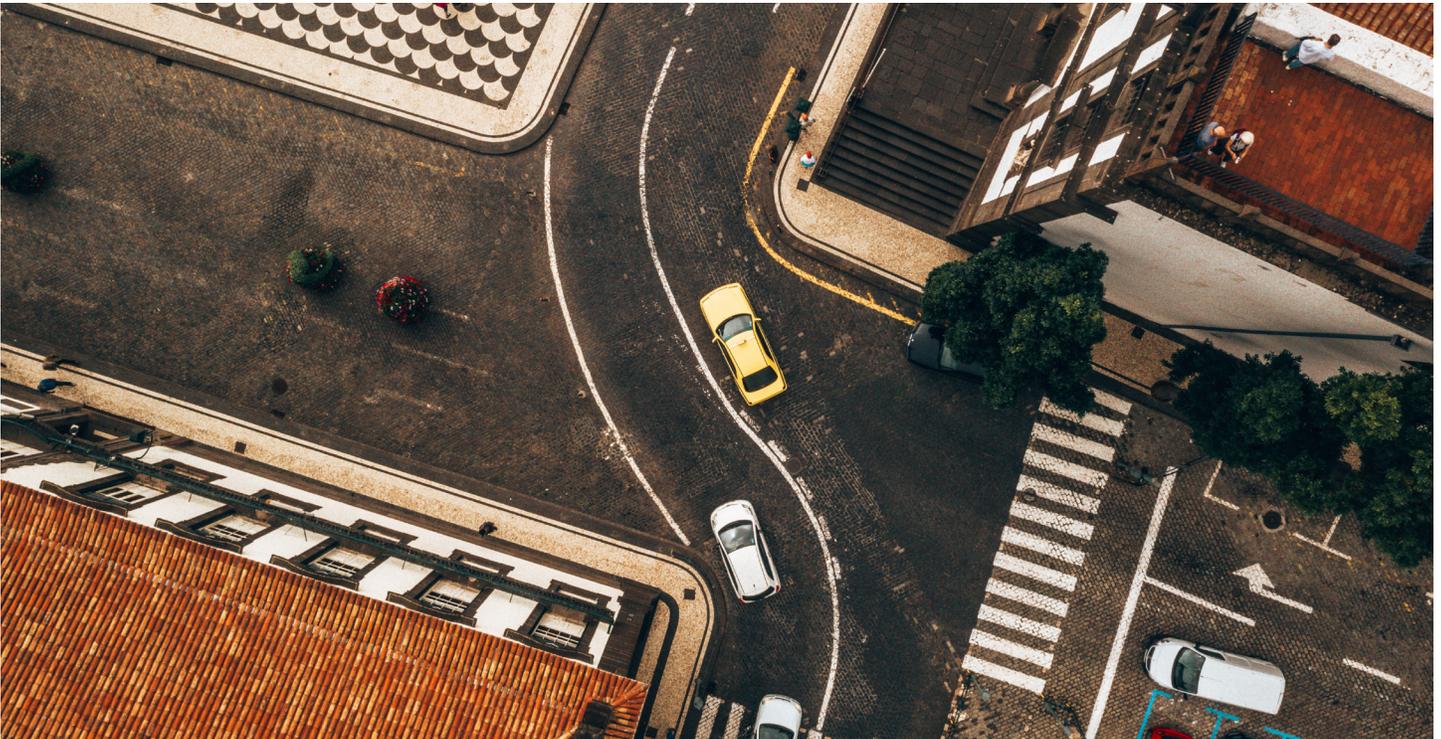
Banks use a host of specific products/asset classes and services that enable their clients to mitigate and/or adapt to climate change.

Insights from the data

- Financial planning elements that are generally influenced by climate-related activities, as reported by FIs, are: access to capital, acquisitions and divestments; capital allocation; capital expenditures; direct and indirect costs; revenues, liabilities; provisions or general reserves; and assets.
- 20% of FIs reported that they do not plan to identify spending/revenue that is aligned with organization's climate transition in the next two years while 53% have reported that they plan to do so in the next two years.
- Interestingly, 20% identified alignment with a sustainable finance taxonomy and another 7% identified alignment with the climate transition plan. This implies that these few FIs are diligently taking cautious steps to allocate capital into areas/projects which can be categorized as sustainable activities. This would in turn lead to cushioning their investments from unsustainable projects and companies. FIs have reported complying with RBI Guidance on climate risk and sustainable finance and one bank has reported designing its own sustainability-linked loans which are aimed at climate change mitigation.
- The data has revealed that there are many new, growing opportunities to lend in renewables, clean transportation, sustainable infrastructure and green housing, and sustainability linked loans.
- Banks use a host of specific products/asset classes and services that enable their clients to mitigate and/or adapt to climate change. These instruments include ESG-based thematic mutual funds, green bonds, retail loans, green FD, microfinance loans, digital platforms and solutions for retail and MSME customers, renewable energy financed projects, project finance, and sustainability linked loans.
- For the same purpose, 69% of FIs use Climate Bonds Taxonomy, Green Bond Principals (ICMA), Low Carbon Investment (LCI) Taxonomy, and the recent guidelines by RBI for banks to offer Green FDs as a channel for obtaining green capital, while the remaining majority of banks use internally-classified methods to inform their products and services.

(e) Value chain engagement & low carbon initiatives

One of the key elements of a climate transition plan¹¹ is that it contains time-bound actions to decarbonize value chain operations and implement emissions reduction initiatives (low carbon initiatives/ direct operations). As per CDP's last Financial Sector Disclosure report, financed emissions are 750x higher than operational emissions.¹²



15%

reported exercising voting rights as shareholders on climate-related issues.

Organizations do face risks in the value chain that have material environmental and financial implications; hence, value chain engagement plays a significant role in realizing a climate transition plan. For example, organizations with significant emissions in their supply chain can leverage their buyer power and engage their suppliers on developing their own transition plan which aligns with 1.5°C world. **This section sheds light on the very aspect of engagement with value chain partners and implementation of low carbon initiatives.**

¹¹ CDP_technical_note_-_Climate_transition_plans.pdf
¹² CDP Financial Services Disclosure Report 2022 - CDP



Climate-related engagement strategies with investees usually involve discussions on key factors such as carbon emissions and their environmental impact, energy consumption and focus on resource efficiency, and usage of alternate energy sources. 

Insights from data

- Financial institutions have reported taking initiatives to save GHG emissions. The initiatives include energy efficiency in buildings, low-carbon energy consumption and generation, waste reduction and material circularity, energy efficiency in production processes, transportation, company policy or behavioural change. These initiatives are estimated to lead to an estimated annual CO₂e savings of **74,204 metric tonnes CO₂e**, the majority of which are Scope 2 emissions (location based). While under Scope 3, categories such as category 1: purchased goods & services, category 3: fuel-and-energy-related activities, category 5: waste generated in operations, category 6: business travel, and category 7: employee commuting have been reported to save some emissions. **However, data reveals that not enough FIs are engaging with their portfolio companies that are covered under category 15 of Scope 3 (investments). These initiatives also lead to significant savings on companies' balance sheets.**¹³
- Regarding supplier engagement, most FIs have reported that they engage with their clients, customers, suppliers, value chain partners on climate-related issues.
- FIs have also reported to be a member of environmental collaborative frameworks, initiatives and/or commitments related to environmental issues such as CDP, TCFD, SBTI-FI, WMB, CFLI, PRI, Climate Action 100+, UN Global Compact, and GRI.
- Only 15% reported exercising voting rights as shareholders on climate-related issues.
- Climate-related engagement strategies with clients** usually involve discussions on education/information sharing, communication with customers on social media, advertisements and emails on its various initiatives and achievements on ESG topics, engagement & incentivization, compliance & onboarding, collaboration & innovation, and feedback gathering as a part of Sustainability Materiality Assessment among a few others.
- Climate-related engagement strategies with investees** usually involve discussions on key factors such as carbon emissions and their environmental impact, energy consumption and focus on resource efficiency, and usage of alternate energy sources. **This parameter has been reported by only one FI.**

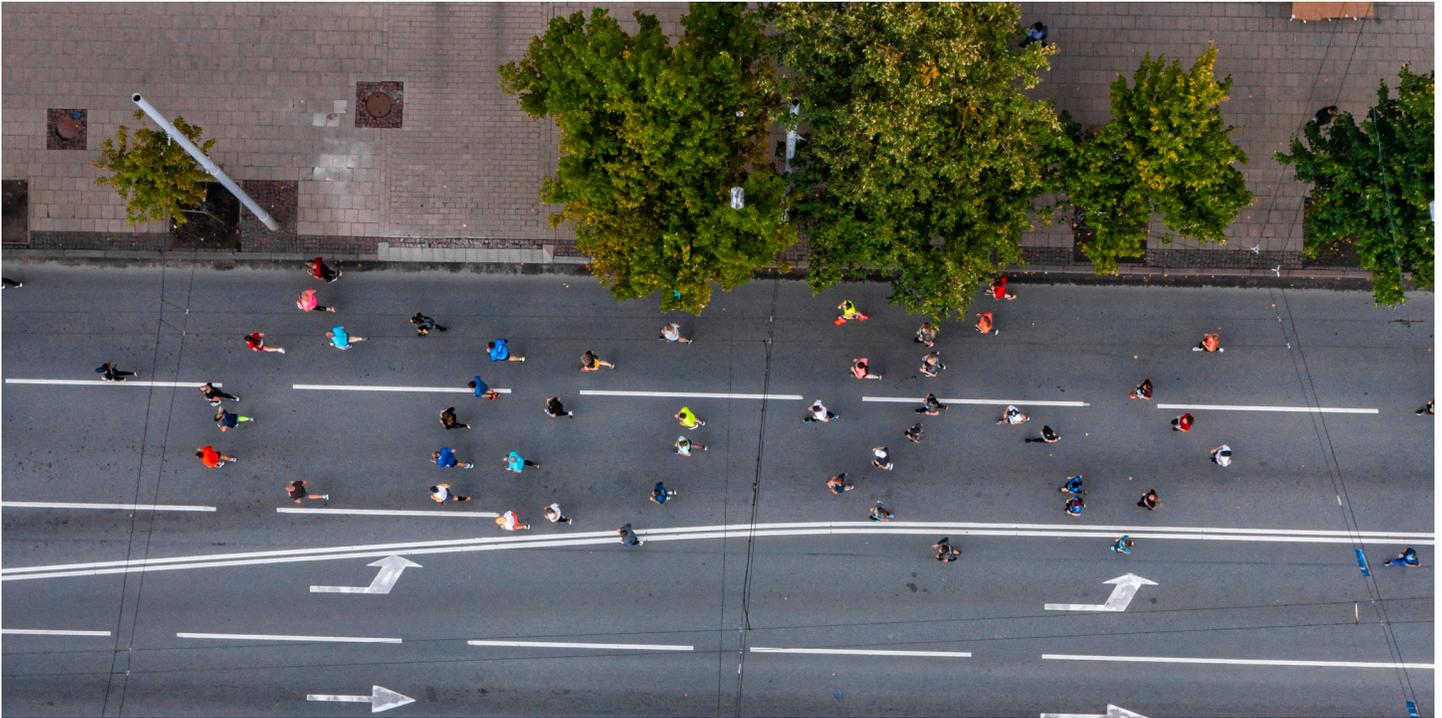
13 This is further discussed in the other section on metrics and targets

(f) Policy Engagement

Ensuring that an organization's climate transition plan is aligned to their external policy engagement (pertaining to law, regulation, and trade associations) demonstrates an ambitious effort towards achieving a 1.5°C world. For many organizations therefore, a successful climate transition will depend on an accommodative policy landscape, and so organizations should welcome ambitious, climate-positive policies that support their relevant sectors to transition. Organizations should also advocate against climate-negative policies which could impact the real economy's ability to transition.

Organizations should disclose whether their policy engagement activities are in line with the Paris Agreement and provide details on their processes in place to ensure engagement activities are consistent with their overall climate change strategy. **With these reference points, this section covers the reporting landscape of Indian FIs in terms of their policy engagement.**





54%

of FIs are members of trade associations and banking associations

Insights from the data

- ▼ 73% reported involvement in external engagement activities that could directly or indirectly influence policy, law, or regulation that may impact the climate.
- ▼ 40% reported having a public commitment or position statement to conduct their engagement activities in line with the goals of the Paris Agreement. 33% do not have a plan, nor plan to have one in the next two years, while 27% of FIs do not have but plan to have one in the next two years.
- ▼ 54% of FIs are members of trade associations and banking associations, which are likely to take a position on any policy, law or regulation that may impact the climate, such as Indian Banking Association, CII, FICCI, ICC, NBFC Taskforce.



An important part of the TCFD's recommendations is the consistent categorization of climate-related risks and opportunities and the resulting financial impacts. The TCFD's recommendations encourage organizations to evaluate and disclose, as part of their annual financial filing preparation and reporting processes, the climate-related risks and opportunities that are most pertinent to their business activities.

(g) Risks and Opportunities

Elements of TCFD recommendations

- ▼ Describe the climate-related risks and opportunities the organization has identified over the short, medium and long term.
- ▼ Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.
- ▼ Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.
- ▼ Describe the organization's processes for identifying and assessing climate-related risks.
- ▼ Describe the organization's processes for managing climate-related risks.
- ▼ Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.

To demonstrate forward planning (which is crucial for a climate transition plan), an organization's transition plan should include or reflect a process for identifying, assessing, and responding to climate related risks and opportunities. **This should focus in particular on risks and opportunities that FIs are exposed to through their portfolios.**

It also becomes an imperative to look at the details of the risks posed to an organization by climate-related issues, and the estimated potential financial impact of these risks at the corporate level, as well as the response strategy to manage these risks.

Similarly, analyzing the details of the opportunities that an organization can leverage via climate-related issues as well as the response strategy required to take advantage of these opportunities is important.



93%

of all disclosing FIs reported having a proper mechanism in place for risk analysis.

Insights from the data pertaining to risk profile of FIs

- ▼ 93% of all disclosing FIs reported that they have the processes in place for identifying, assessing, and responding to climate-related risks and opportunities.
- ▼ 93% of all disclosing FIs reported that they cover their Direct operations (ie, upstream and downstream) when analysing climate-related risks and opportunities through, either a specific climate-related risk management process or a multi-disciplinary company-wide risk management process.
- ▼ 93% of all disclosing FIs reported having a proper mechanism (involves risk identification, assessment, measurement, mitigation, monitoring, and reporting) in place for risk analysis.
- ▼ 93% of all disclosing FIs claim that they have identified inherent climate-related risks which could have a substantive financial or strategic impact on their businesses.
- ▼ FIs have also reported where in the value chain the risk driver occurs: 47% are in the banking portfolio, 73% in direct operations, 13% in downstream and 20% in another part of the value chain.

Key highlight:

The cost of response to counter the risk emanating from climate change is INR 28 billion which is 36 times less than the actual potential financial impact arising from risk. This provides a sound reason for prompt action to leverage a transition to clean production and energy in operations.



- ▶ A potential financial impact of **INR 1,007 billion** has been identified by the FIs. Primary potential financial impacts that are identified by the majority of FIs are:
 - Increased credit risk;
 - Increased indirect (operating) costs;
 - Decreased asset value or asset useful life leading to write-offs;
 - Asset impairment or early retirement of existing assets;
 - Decreased access to capital, increased capital expenditures;
 - Fines and penalties and loss of reputation;
 - Increased investment in low carbon/ energy efficient investments;
 - Decreased revenues due to reduced production capacity among others;

However, it is disappointing to note that since only 47% of FIs have analyzed the risk of their banking portfolio and the rest have failed to examine this issue closely, the potential financial impact figure of INR 1,007 billion is likely to be severely underestimated.

- ▶ The cost of response to counter the risk emanating from climate change is INR 28 billion which is 36 times less than the actual potential financial impact arising from risk. This provides a sound reason for prompt action to leverage a transition to clean production and energy in operations.

Insights from the data pertaining to opportunity profile of FIs

- ▶ 94% of all disclosing FIs claim that they have identified inherent **climate-related opportunities** which could have a substantive financial or strategic impact on their businesses.
- ▶ INR 1,149 billion financial opportunity have been identified by these reporting FIs. The cost to realise this opportunity stand at INR 86.2 billion.
- ▶ These identified opportunities help FIs in **reducing** their indirect (operating) costs, **increasing** their revenues and diversification of financial assets, and increasing their returns on investment in low-emission technology.



47%

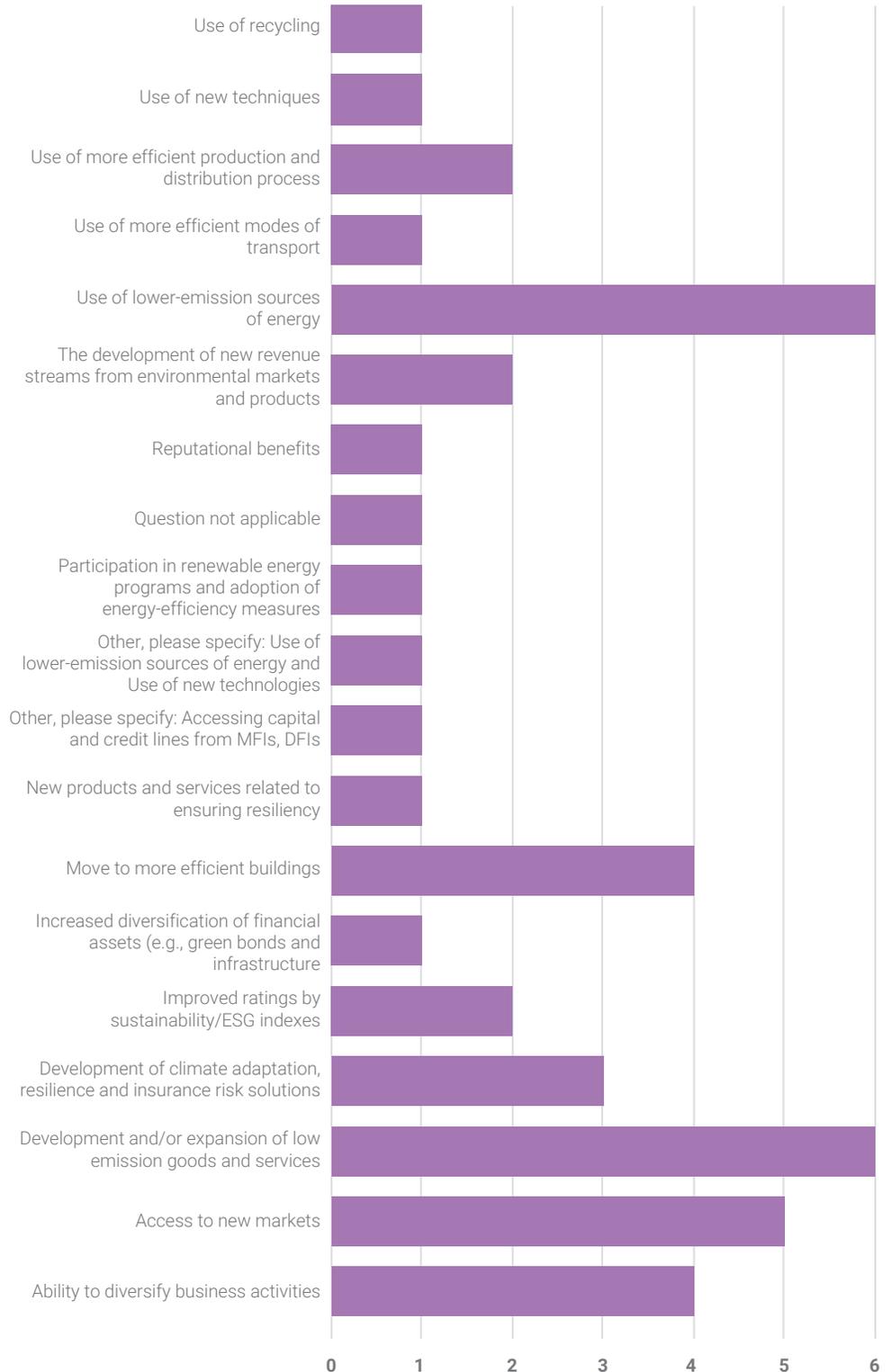
of FIs have analyzed the risk of their banking portfolio and the rest have failed to examine this issue closely



54%

of all disclosing FIs claim that they assess their banking portfolio's exposure to climate-related risks and opportunities

Number of FIs reporting on opportunities



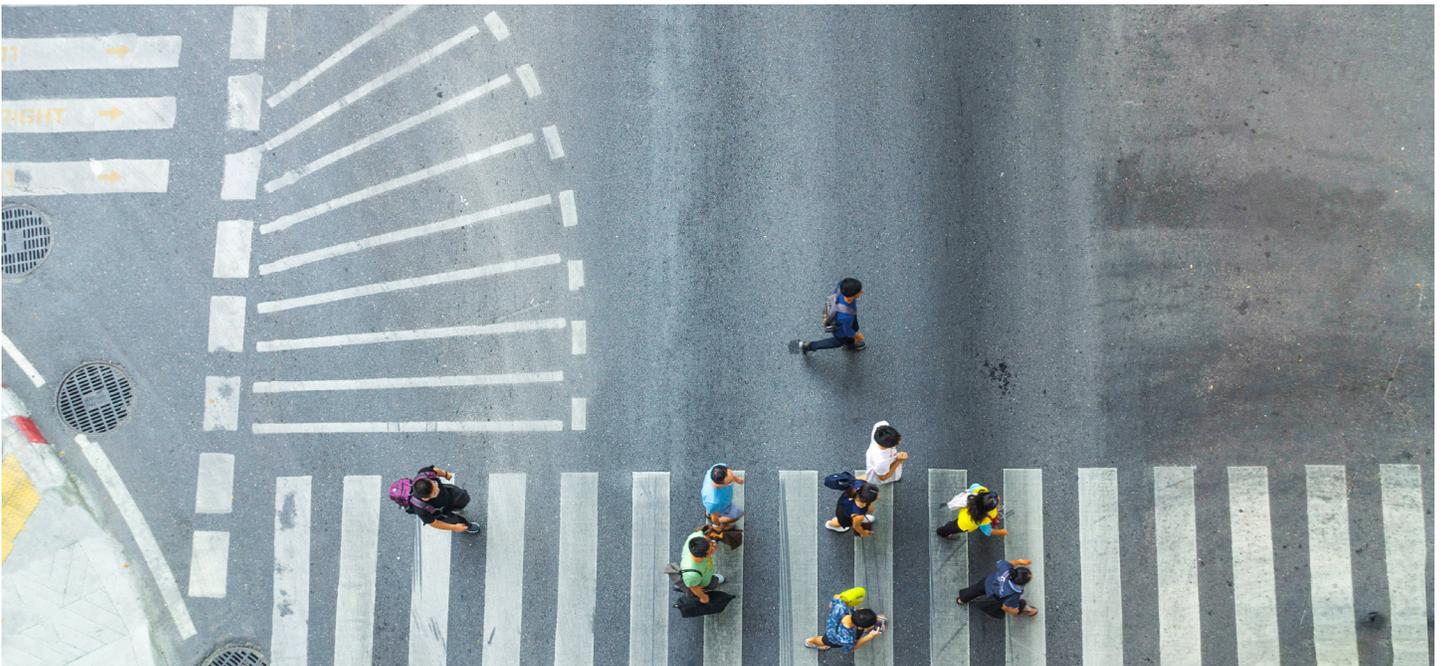


INR 1,149 billion worth of financial opportunities has been identified by these reporting FIs.

- ▼ Only 54% of all disclosing FIs claim that they assess their **banking portfolio's exposure** to climate-related risks and opportunities while 15% have informed that plan to do so in the next two years.
- ▼ Similarly, FIs in insurance and investing sector do not plan to do so in the next two years.
- ▼ 15% of all disclosing FIs in the investing sector do not assess **their investing (asset managers) portfolio's exposure** to climate-related risks and opportunities as of now.
- ▼ 62% of all disclosing FIs consider or are planning to consider in the next two years, the climate-related information from clients/investees as part of their due diligence and/or risk assessment process.
- ▼ Disclosing FIs that assess their respective portfolios by risk management processes, do so by the help of quantitative and qualitative method of assessments for the period of long-term, medium-term, and short-term.

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Banks do consider the climate-related information of their clients/investees as part of their due diligence and/or risk assessment process, which influences their decision making. ▼▼

- ▼ Banks do consider the climate-related information of their clients/investees as part of their due diligence and/or risk assessment process, which influences their decision making. Information such as the following are considered:
 - climate transition plans;
 - emissions data;
 - emissions reduction targets;
 - energy usage data;
 - physical risk parameters (acute and chronic),
 - TCFD disclosures; capital expenditure;
 - public disclosures on climate;
 - ESG ratings by external agencies; and end-use of the loan to ensure there is no adverse impact on the environment.
- ▼ Other parameters include environmental regulations such as approvals/clearances from various government bodies such as Ministry of Environment, Forest and Climate Change (MOEF & CC), Central / State Pollution Control Board and Social regulations and policies applicable such as child labor, labor laws. While some banks have their in-house methodology on ESG criteria to assess sector specific environmental and social risks involved in a project.





Ambitious climate transition plans will include climate-related targets such as increased low-carbon energy consumption or production targets.



A climate transition plan should be accompanied by a complete, accurate, transparent, consistent and relevant inventory of all three Scopes of emissions (Scope 1, 2, and 3).

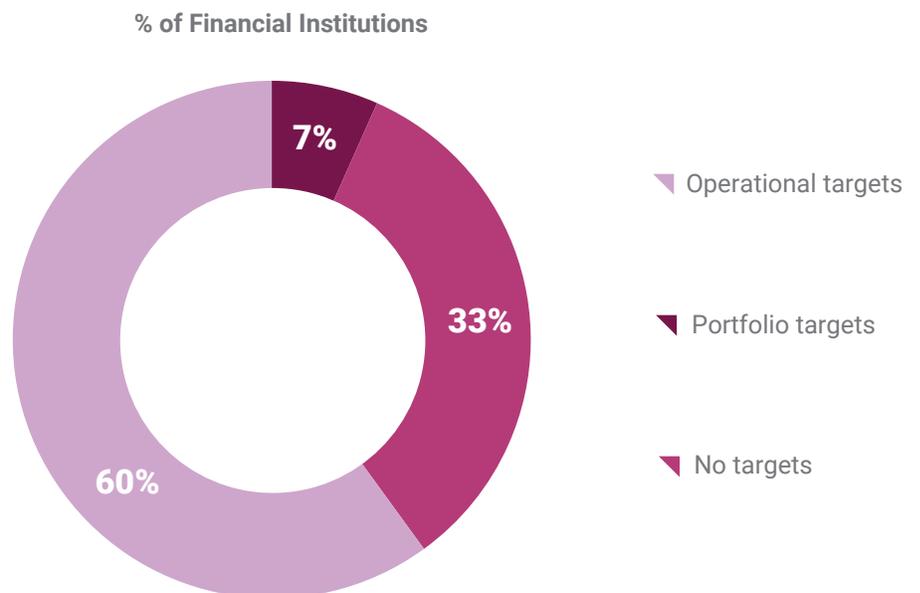
(h) Metrics and targets

Elements of TCFD Recommendations

- ▼ Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.
- ▼ Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.

Ambitious climate transition plans will include climate-related targets such as increased low-carbon energy consumption or production targets. In addition, a climate transition plan should be accompanied by a complete, accurate, transparent, consistent and relevant inventory of all three Scopes of emissions (Scope 1, 2, and 3). Any individual organization may find it important to fully disclose to Scope 1, 2 & 3 accounting with verification parameters. With respect to FIs, they should calculate and disclose all material categories of Scope 3, the most relevant category being Category 15 ie 'Investments', and provide an explanation for categories that are not relevant.

Insights from the data





For Scope 3 emissions reductions, one of the FIs has interventions planned, including biogas generation from in-house waste, recycling and reusing building materials, and increasing the utilization of blended cement and procurement of green steel. Additionally, various carbon offset options are also being explored, such as IREC's available in the market to neutralize the remaining residual emissions. 

As is evident from the graph above, only one FI has reported on its portfolio emissions target, which is the most important category to set target for, while several FIs have set absolute and intensity-based targets that focus on their direct and operational emissions.

This represents a major gap at present, as targets are critical to guide the portfolio alignment activities and trajectories on the path to net-zero.

While it is encouraging that FIs have started thinking about climate-related targets, the focus must turn from operational emissions towards addressing their financed and facilitated emissions, including Scope 3 Category 15: Investments.

These targets can help FIs identify how their underlying assets are performing against metrics which reflect both the current and forward-looking alignment towards net-zero, whilst also tracking activities within the FI to improve the performance of these assets against those metrics. The target-setting process can help identify gaps in data availability that can inform their actions to bridge this gap.

Initial efforts to reduce operational emissions

To meet its operational net-zero target by 2030, one of the leading Indian banks is taking a multi-pronged route covering the use of renewable energy to power its facilities, use of energy efficient light fixtures and office equipment and appliances (with five-star ratings), and exploring quality carbon sequestration offsets.



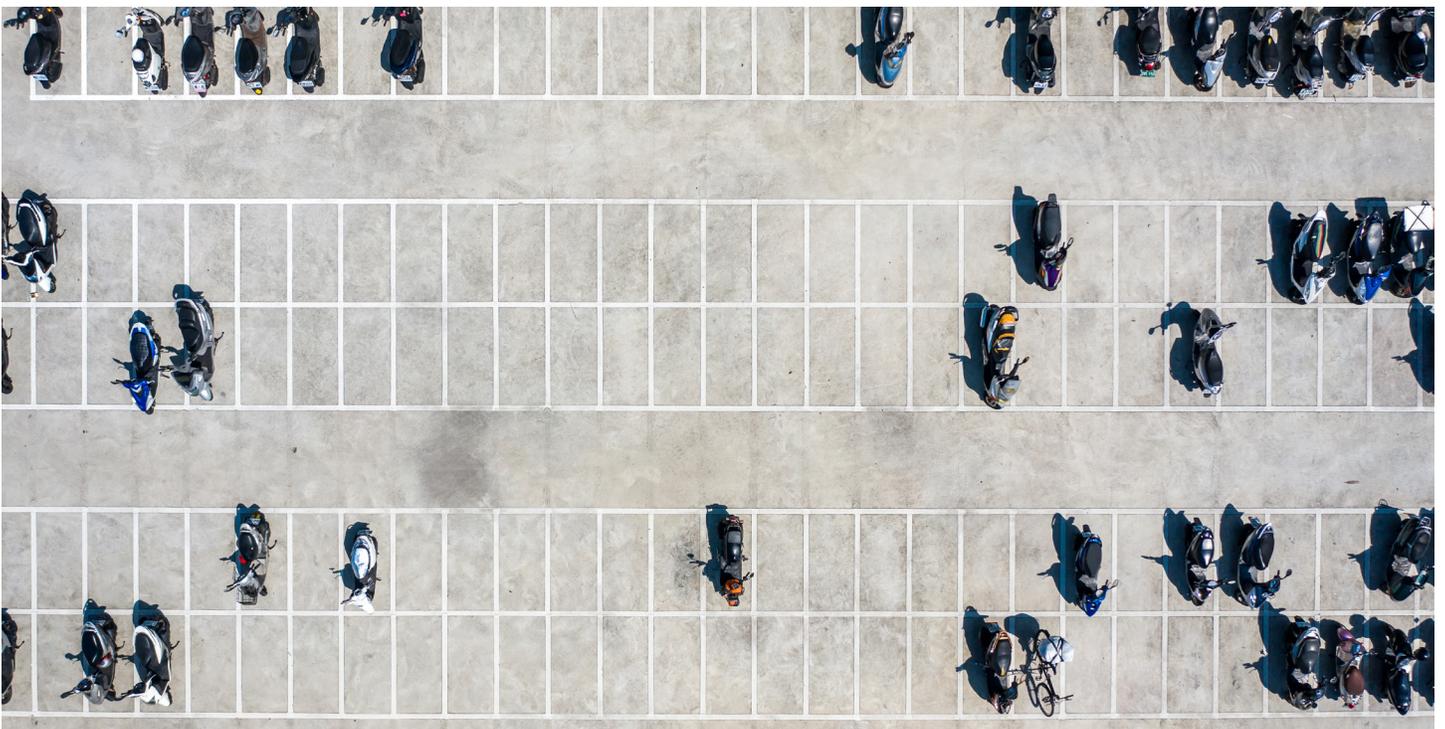
(i) Scope 1, 2 & 3 accounting and verification

Elements of TCFD recommendations

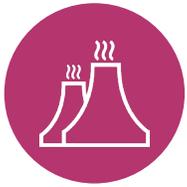
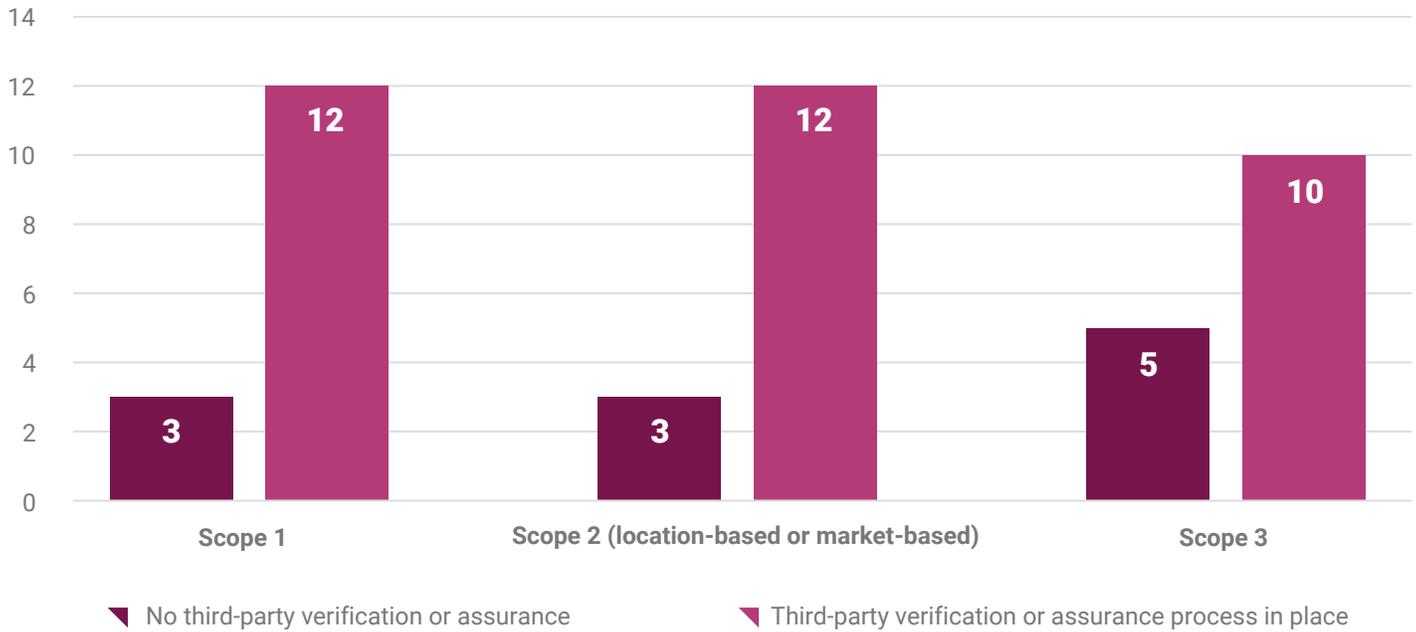
- ▼ Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.

A climate transition plan should be accompanied by a complete, accurate, transparent, consistent, and relevant inventory of all three Scopes of emissions. Any individual FI should fully disclose to emissions methodology, emissions data, emissions breakdown, energy, additional metrics and verification and portfolio impact, with an emphasis on portfolio emissions and other portfolio impact metrics.

Third-party verification is necessary for credibility and transparency on progress against a climate transition plan. FIs must calculate and disclose all material categories of Scope 3 and provide an explanation for categories that are not relevant. **This section captures key disclosure trends among FIs with respect to disclosing both emissions across all three scopes and the verification status of their report emissions.**



Scope 1, 2 & 3 verification



Only one leading Indian bank has calculated its Scope 3 emissions pertaining to category 15 ie 'Investments'



The most important first step is to determine which of the Scope 3 emissions are most material to FI's business and that should be addressed as a priority.

Insights from the data

- All 15 FIs have reported on their gross global Scope 1 emissions in metric tons CO₂e and their gross global Scope 2 emissions in metric tons CO₂e. All FIs disclosed location-based figures, while four additionally disclosed market-based figures.
- The most important first step is to determine which of the Scope 3 emissions are most material to FI's business and that should be addressed as a priority. As the majority of emissions occur in relation to financial products and services and/or investments, financed emissions, or Scope 3 Category 15 'Investments' emissions as defined by the GHG Protocol is the most relevant category to financial services organizations.
- Only one leading Indian bank** has calculated its Scope 3 emissions pertaining to **category 15 ie 'Investments'** using PCAF (Partnership for Carbon Accounting Financials) methodology. The Bank has measured financed emission of its electricity generation portfolio (covering corporate loans, investment, project finance) and is striving to scale up the approach to climate-intensive sectors. For electricity generation portfolio, the Bank has used sectoral decarbonization approach by the SBTi to establish interim targets in line with well below 2-degree scenario, striving for 1.5-degree scenario.
- If we look at the verification aspect of the emissions data, the graph above, suggests low level of verifications for especially Scope 3 emissions specifically for category 15, where only one bank has reported on having verified Scope 3 investment category. Indian FIs will need to catch up in the race with their global peers.



If FIs intend to reach net-zero emissions by 2050, they will more likely have to set targets to reduce their emissions towards targets and action that enables real economy transition, which might also lead to a hike in financed emissions in the short term. 

- ▼ Only one bank has reported on their **climate-related intensity targets** for their banking portfolio dealing in corporate loans and project finance related to energy sector. The bank has considered it to be a **science-based target** and has committed to seek validation of this target by the Science-based Targets initiative in the next two years.
- ▼ The respective bank has set a target ambition well-below 2°C aligned. In line with global best practices, the bank has initiated measurement and disclosure of financed emission.

If FIs intend to reach net-zero emissions by 2050, they will more likely have to set targets to reduce their emissions towards targets and action that enables real economy transition, which might also lead to a hike in financed emissions in the short term. Hence, to counter the temporary hike in financed emissions, FIs need to follow a credible transition plan. Undoubtedly, financed emissions make up the lion's share of banks' overall emissions as they provide finance to some of the high emitting sectors in the form of loans, insurance, or underwriting. If banks are insufficiently transparent about their Scope 3 emissions, they are likely to face serious implications on their journey to decarbonization.



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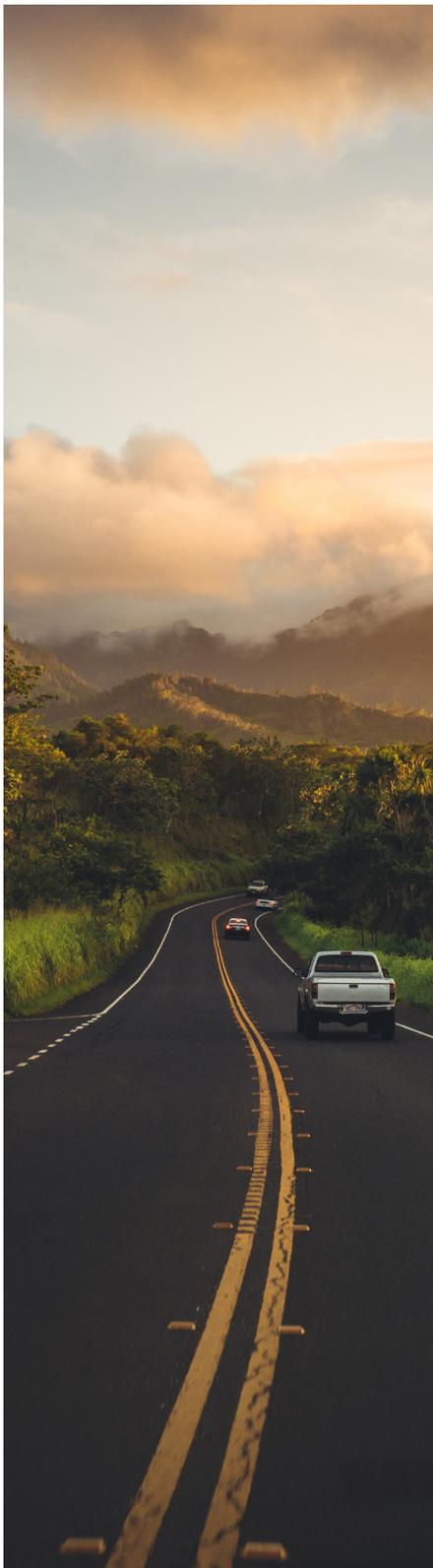


The way forward



4

The way forward

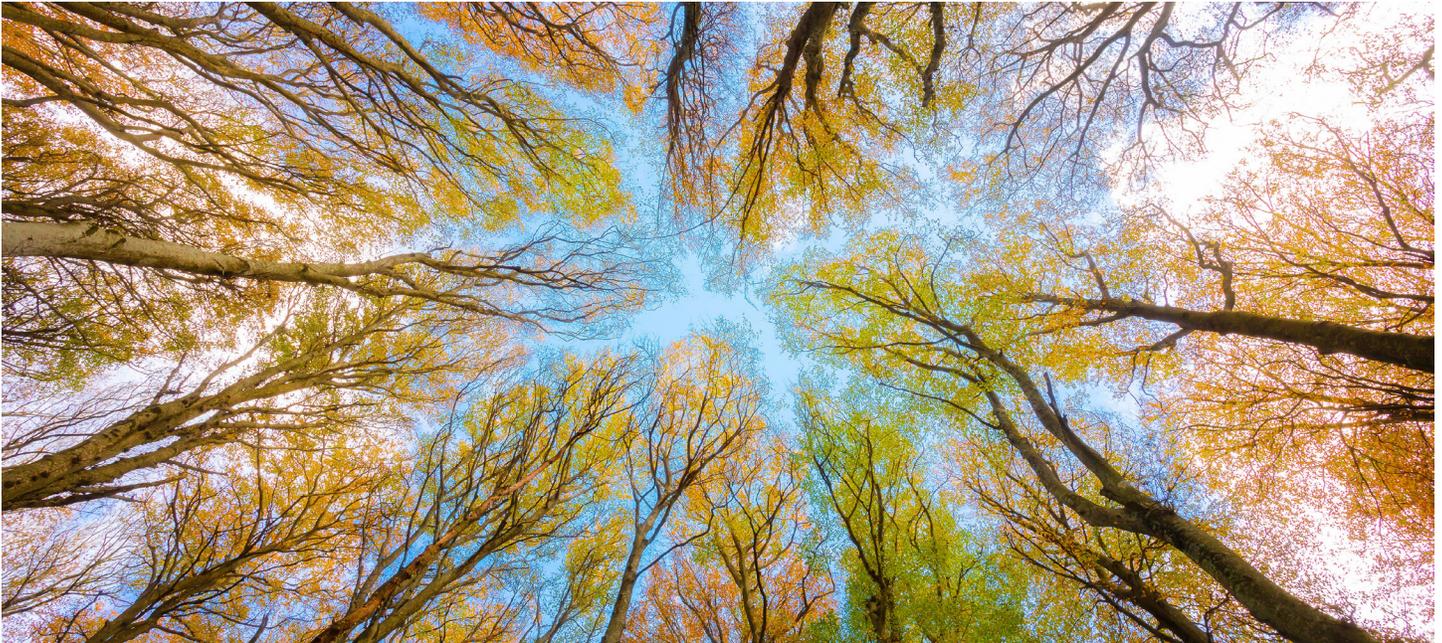


The findings from the data indicate that Indian FIs are moving too slowly in the transition to a net-zero economy. It is insufficient to merely aim to comply with the Paris Agreement targets, India's net-zero target year of 2070¹⁴ or global commitment of 2050, financial institutions need to further operationalize these and deliver on these intentions. This will require them to begin planning now for the coming decades. This planning should include intermediate targets that can position the FIs to prosper in a net-zero future.

In order to achieve these goals, FIs will need to implement credible climate transition plans and catalyze real economy emissions reductions. Unfortunately, no Indian FIs report engaging with their portfolio companies, indicating that a key lever for decarbonizing the real economy is not being used to its full potential. Given that the average FI's financed emissions are hundreds of times higher¹⁵ than its operational emissions, a failure to engage with real economy clients threatens to undermine FIs' targets and to stymie India's progress toward a sustainable future. This lack of action on client engagement also leaves unrealized many of the opportunities associated with the transition, potentially negatively impacting FIs' performance and balance sheets.

14 pib.gov.in/PressReleaseframePage.aspx?PRID=1961797. India is an emerging economy where Greenhouse Gas emissions are set to increase, albeit from a low base, in pursuit of its development and poverty eradication goals. It is to be noted that India's historical cumulative emissions from 1850 to 2019 amount to less than 4 % of cumulative carbon dioxide emissions of the world from the pre-industrial era, despite being home to 17 % of the world's population. Hence, India's responsibility for global warming thus far has been minimal and even today its annual per capita emissions are only about one-third of the global average. - pib.gov.in/PressReleaseframePage.aspx?PRID=1945472

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Only 1 Indian bank has calculated its emissions pertaining to portfolio emissions. This is a critical gap, with most Indian FIs not currently calculating and disclosing their most significant source of emissions.

The majority of an FI's emissions occur in relation to its financial products and services. **However, only one Indian bank has calculated its emissions pertaining to portfolio emissions. This is a critical gap, with most Indian FIs not currently calculating and disclosing their most significant source of emissions.** Without this information, stakeholders may not adequately understand FIs' most relevant risks, opportunities, and impacts. Reporting against environmental portfolio impact metrics, including but not limited to financed emissions, is critical for a variety of reasons. Including for their use as part of risk management, transparency and comparability for key stakeholders including regulators and supervisors, for robust target setting, and more.

Similarly, while FIs across the world demonstrate increasing ambition and setting of transition plans, Indian FIs lag in terms of reporting on their transition plan. Not a single Indian FI has successfully reported on all the parameters for having a credible transition plan as defined by CDP.

As the wider economy aligns with net-zero goals, actors in all economic sectors will have to adjust their operations and strategies to suit both greener consumer preferences and new regulatory instruments in a growing number of jurisdictions, such as carbon pricing regimes. Alignment with these developments is important both in terms of environmental performance and maintaining access to markets globally.



A regulatory push is needed to support Indian FIs in translating their intentions for the next 50 years into concrete, impactful actions.



Indian regulators should design impactful transition plan requirements aligned with emerging global frameworks such as that of the UK Transition Plan Taskforce.

Recommendations to policymakers

- ▶ Given the slow uptake of transition planning and reporting on other forward-looking metrics on a voluntary basis, a regulatory push is needed to support Indian FIs in translating their intentions for the next 50 years into concrete, impactful actions.
- ▶ Prudential regulation is a legal framework focused on the financial safety and stability of institutions and the broader financial system. Given the threats to the stability of the financial system that are represented by unpriced environmental risk and the reluctance of Indian FIs to act without clear regulatory guidance, **RBI should introduce binding requirements for its regulated entities to have credible climate transition plans.**
- ▶ **Indian regulators should design impactful transition plan requirements aligned with emerging global frameworks such as that of the UK Transition Plan Taskforce**, thus positioning Indian FIs to prepare and disclose clear, comprehensive and credible transition plans. This would both ensure consistency and comparability among transition plans and create a level playing field for Indian financial institutions.
- ▶ Such requirements should go beyond the mere point-in-time measurement of climate and environment risks and instead embark on **a thorough assessment of the structural changes that are likely to occur within relevant industries over a longer time period.**
- ▶ To assess the impact of climate risk on the financials and balance sheets, Indian FIs would need guidelines on models, emissions pathways, and other macroeconomic and industry assumptions to accompany or precede any regulatory action aligned with global frameworks as closely as possible. Policymakers should work together with industry experts to produce capacity building programs and resources for FIs.



▼▼
To assess the impact of climate risk on the financials and balance sheets, Indian FIs would need guidelines on models, emissions pathways, and other macroeconomic and industry assumptions to accompany or precede any regulatory action aligned with global frameworks as closely as possible. ▼▼

Recommendations to financial institutions

- ▼ CDP data indicates that Indian FIs must make structural changes to their way of doing business, to make sure that they are positioned to thrive in a net-zero future, and to minimize systemic risk posed to the financial system.
- ▼ FIs should publicly disclose a climate transition plan in line with CDP's key principles and latest guidance for a 1.5°C-aligned, credible plan; and set portfolio targets.
- ▼ FIs must assess and manage their exposure to climate-related risks across their portfolios. They can start by focusing on potential high-risk sectors including fossil fuels, automobiles, and others.
- ▼ FIs should engage with their clients and investees to demonstrate the demand for climate-related disclosure. This data can provide the basis upon which FIs can better understand their exposure to financially substantive climate-related risks, as well as create a feedback mechanism to drive further engagement strategies that drive real economy emissions reductions. This engagement can unlock opportunities for emerging leaders to capitalize on.



Transition planning is a journey and data has revealed that few optimum transition pathways are being implemented by Indian FIs. Efforts are needed to gather greater momentum. 

Transition planning is a journey and data has revealed that few optimum transition pathways are being implemented by Indian FIs. Efforts are needed to gather greater momentum. Although in the past few years, an increase in awareness and policies has helped navigate the transition towards a greener and sustainable future, there is no denying that Indian FIs need to catch up to global peers. To enable banks to operate and develop this sustainable ecosystem, the policy framework development in the country is of paramount importance. In addition to this, a collective urge to make a sustainable change will make a real difference. Greater public awareness, information sharing, and constant research and development would help in bringing about a real shift.





Although in the past few years, an increase in awareness and policies has helped navigate the transition towards a greener and sustainable future, there is no denying that Indian FIs need to catch up to global peers. 

From the top down, policy and regulation will set the tone of what is required in the transition. This will send powerful signals to drive markets in support of the transition to net-zero emissions and to finance projects for climate-resilient infrastructure to adapt to the impacts of climate change already being felt around the world, particularly by those least able to afford them.

From the bottom up, incentives and risk management will need to align with and drive the shift within the financial system. Adopting appropriate financial, fiscal and institutional incentives will power change in the real economy.



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