International Association of Deposit Insurers

IADI Survey Briefs analyse the result of surveys amongst IADI members and provide takeaways on policy and research topics of relevance to deposit insurers.

SURVEY BRIEF

ESG AND DEPOSIT INSURANCE

TAKING STOCK AND LOOKING AHEAD

NO. 4

BERT VAN ROOSEBEKE and RYAN DEFINA

January 2023

IADI Survey Briefs are written by staff members of IADI's Research Unit and are published by IADI. They analyse the result of surveys amongst IADI members. Any views expressed in them are those of the author(s) and not necessarily the views of IADI. The authors are grateful to David Walker, Yvonne Fan and Margaret Chuang (CDIC Chinese Taipei), Yuichi Fujimura (Deposit Insurance Corporation of Japan) and Jan Nolte (IMF) for helpful comments.

The editor of the IADI Survey Brief series is Bert Van Roosebeke.

This publication is available on the IADI website (www.iadi.org).

International Association of Deposit Insurers (IADI), C/O Bank for International Settlements,
Centralbahnplatz 2, CH-4002 Basel, Switzerland. Tel: +41 61 280 9933 Fax: + 41 61 280 9554

Bert Van Roosebeke
IADI Research Unit
bert.vanroosebeke@iadi.org

Ryan Defina
IADI Research Unit
ryan.defina@iadi.org

ESG and Deposit Insurance: Taking Stock and Looking Ahead

Executive Summary

Drawing on a survey amongst IADI Members, this IADI Survey Brief takes stock of the prevalence of ESG ("Environment, Social and Governance") for deposit insurers. It provides a snap-shot of the current use of ESG policies by deposit insurers and identifies their expectations on future developments.

We define ESG policies as formalised frameworks covering environmental, social or governance issues and that go beyond existing legal obligations in a given jurisdiction. Such policies are voluntary in nature and are not legally enforceable. ESG has recently witnessed fast-growing importance on financial markets and has attracted the attention of a number in international financial institutions. At the same time, the concept of ESG is still novel and there may be ample scope for further developing measuring concepts.

The main findings on ESG policies by deposit insurers:

- As of 2022, 60% of deposit insurers do not have a formalised ESG policy that goes beyond existing legal obligations. One in five deposit insurers reports having in place a formal policy that covers all three ESG factors. Forty percent of deposit insurers have an ESG policy that covers at least one of the three ESG factors.
- Early findings suggest that deposit insurers with a broader mandate may be more likely to consider the relevance of ESG policies to their operations.
- Governance issues are most often formalised into ESG policies by deposit insurers, followed by social and environmental issues.
- Five elements are present in almost 70% of deposit insurers' ESG policies: conflict of interest policies, procurement, recruitment, facilities management and travel.
- About half of deposit insurers with a formal ESG policy make this policy publicly available. Very few deposit insurers participating in the survey are subject to mandatory disclosure on ESG and most do not expect this to change in the near future.
- Roughly eight out of ten deposit insurers with an ESG policy attempt to measure their ESG performance and incorporate the latter in key performance indicators.

Looking ahead:

- Sixty percent of deposit insurers expect ESG relevance for core deposit insurer activities to increase in the next two years. This expectation grows to 76% of those deposit insurers that have adopted a formal ESG policy. Not a single deposit insurer expressed the expectation that ESG relevance will decrease.
- Of those deposit insurers without ESG policy, 62% expect to develop a (partial) ESG policy within the next two years. If this were to materialise, and based on the survey sample, the share of deposit insurers with a formal ESG policy would raise from 40% in 2022 to 77% in 2024.
- The majority of deposit insurers reports a need for IADI research or guidance on ESG issues, with demand higher amongst those with an ESG policy. Less than 10% see no need for work in this area.

Building on these findings and survey results, an upcoming IADI Survey Brief will deal with the current and expected future consideration by deposit insurers of climate related issues when investing funds.

Table of Contents

List of Figures

1 Introduction

In this paper, we introduce the concept of ESG (Environmental, Social and Governance) and demonstrate its growing prevalence for international financial institutions and financial markets in section 1. In section 2, building on a recent survey amongst IADI Members, we take stock of the relevance of ESG policies for deposit insurers. We look into the elements such ESG policies focus on and how binding they are. Section 3 looks ahead and gives an outlook of the expected future relevance of ESG to the deposit insurance community. Section 4 concludes.

1.1 What is ESG?

Environmental, Social and Governance (ESG) offers a framework with which to discuss a wide range of issues not typically viewed as directly relevant to the banking sector's "bottom line". Similarly, central banks, bank supervisors and deposit insurers have not historically viewed such considerations as core to their mandate, nor applicable to their operations i.e. monetary policy, supervisory activities, bank resolution, depositor reimbursement, etc. However, attitudes have evolved towards non-financial corporate objectives for a variety of reasons.

Source: SGS SA

The 'E' has been driven by developments in the field of climate science, with growing evidence of human-induced climate change causing wide-sweeping adverse impacts on many aspects of society, and (importantly for the deposit insurer) corresponding spill-overs into the financial sector. This has subsequently triggered interest from a financial stability perspective.[1] Moreover, in a significant share of societies, acceptance of the need for stricter public policy measures countering climate change seem to be growing. Customers may attach value to (non) financial industry actors internalising environmental concerns in excess of existing laws and regulations. Although associated with costs, environmental policies may thus increase suppliers' attractiveness to customers. In certain cases, this may also lead to early mover advantages and may also smoothen suppliers' coping with the transition risk associated with future changes in climate-related public policy.

'S' considerations have spawned from changing expectations of corporations in terms of their social responsibility, factors not necessarily related to the generation of shareholder value. Nevertheless, these intangible outcomes have become more valued by many consumers, potentially driving their willingness to engage with a given corporation or industry. Thus an indirect link between a financial institution's social contribution (however this may be defined) and customer acquisition / retention may become apparent.

The 'G' offers a mix of long-established governance best practices with a strong focus on transparency and accountability, along with capturing emerging concerns such as cybersecurity risks. Given the prominent role of governance for both banking and deposit insurance, this has generated interest also in the financial sector.

The World Bank Sovereign ESG Data Framework[2]

Comprehensive databases pertaining to ESG concepts are growing in terms of availability. The World Bank Group developed an international framework to facilitate the standardisation of definitions and contributed resources to publish an independent empirical data source. This has been widely acknowledged as an authority on the subject. Even though it focusses on activities by countries and not by corporates (as banks) or institutions (as deposit insurers),

[1] Exemplary for the growing literature on climate risks and financial stability: Bolton et al. (2020).
[2] Much of the content in this box is borrowed from (or directly attributed to) the World Bank description of their Sovereign ESG Data Framework. See: https://datatopics.worldbank.org/esg/framework.html

it presents a useful means to disaggregate the various components of ESG principles. The comprehensive dataset made publicly available, based on these classifications, offers a platform with which to further engage with ESG principles. The framework defines the three pillars of ESG as follows:

Environment Pillar

Designed to "provide a picture of the sustainability of a country's economic performance given its natural resource endowment, management and supplementation and its risk or resilience to climate change and other natural hazards" and paying attention to "the internalization of environmental externalities created by economic activity". This category accounts for sustainable energy access and food security, crucial factors for long-term economic growth.

- Emissions & pollution
- Energy use & security
- Food Security
- Natural capital endowment and management
- Environment/climate risk & resilience

Social Pillar

Designed to "provide a picture of the sustainability of a country's economic performance given its efficacy meeting the basic needs of its population and reducing poverty, management of social and equity issues and investment in human capital and productivity". This category also includes demographic criteria, pertinent to stable long-term economic growth.

- Education & skills
- Demography
- Health & nutrition
- Employment
- Poverty & inequality
- Access to services

Governance Pillar

Designed to "provide a picture of the sustainability of a country's economic performance given its institutional capacity to support long-term stability, growth and poverty reduction". This category also accounts for the strength of a country's political, financial and legal systems and capacity to address environmental and social risks.

- Human rights
- Stability & rule of law
- Gender
- Government effectiveness
- Economic environment
- Innovation

1.2 Critiques of ESG

Not all assessments of the ESG paradigm are positive. For instance, a July 2022 article from The Economist[3] argues that "… it lumps together a dizzying array of objectives, it provides no coherent guide for investors and firms to make the trade-offs that are inevitable in any society". This position is correct in identifying the significant breadth of scope covered by ESG principles, although assessing the efficacy (or lack thereof) of these principles in meeting non-financial corporate objectives is mostly yet to be determined.

Attempts to quantify ESG concepts and distil them into consumable indexes or scores are well-progressed. Hundreds of such indexes are now available which in theory should offer a signal to stakeholders that may inform their engagement with a given company or economic activity. However, a major area of concern is a lack of standardisation and conflicts in scoring "due to inconsistencies between the methodologies and metrics used by rating agencies and consultancies, their ratings tell very different stories about companies' sustainability credentials".[4] This has created additional uncertainty for investors and has been a factor in restraining demand for financing sustainable projects and supporting ESG-compliant firms.

[3] The Economist (2022)
[4] Sipiczki (2022)

Other issues related to ESG include the risk that the Environmental component can be subject to "greenwashing" which is not always easy to detect and can deceive investors and result in faulty risk assessments. The Social component also incorporates a wide variety of social, labour and social policy objectives and a lack of international consensus on what should be included.

Other broader critiques are more damning of the ESG framework as a whole, such as that published in the Harvard Business Review[5] earlier this year: "… an express focus on ESG is redundant: in competitive labour markets and product markets, corporate managers trying to maximize long-term shareholder value should of their own accord pay attention to employee, customer, community, and environmental interests". The assertion here is that market forces are likely to be more effective in addressing ESG considerations, through profit maximising activities in competitive markets. However, such a position does appear to be in the minority at the timing of writing. It also leaves the information asymmetry problem unanswered: (retail) investors may lack information, time or skills to assess the degree to which a producer or issuer of a financial product acts in accordance with (admittingly vague) ESG standards. A number of policy makers appear to have established that the ESG characterisation and branding is an important tool in meeting non-financial corporate objectives.[6]

1.3 ESG and international financial institutions

ESG considerations continue to grow in importance among the international community. The Bank for International Settlements[7], International Monetary Fund[8], World Bank Group[9], and private consultancy firms[10] have all published research on the topic of ESG, underscoring the priority being attached to it as a pressing issue for international financial markets. The International Association of Deposit Insurers (IADI) has also been exploring subcomponents of ESG in the last year, with a particular focus on climate-related implications for deposit insurers.[11] This paper offers the first attempt by IADI to gauge ESG views among their membership more holistically.

A notable response by the international community has been the establishment of the Network for Greening the Financial System (NGFS), which claims representation from over one hundred central banks and supervisory authorities. It seeks to "… mobilise capital for green and low-carbon investments in the broader context of environmentally sustainable development". NGFS offers a respected forum to further elements of the ESG framework in a coordinated manner. The Australian Prudential Regulation Authority, De Nederlandsche Bank, Deposit Guarantee Fund of Rwanda / National Bank of Rwanda, Fondo de Guarantia de Depósitos / Banco Central del Paraguay, Saudi Central Bank and Federal Deposit Insurance Corporation are currently the only IADI members that have formally joined the NGFS.[12] It is unclear whether further deposit insurers will consider joining to formalise their commitment to ESG-related endeavours.

1.4 ESG relevance to financial and non-financial markets

Deposit insurers may attribute increasing attention on ESG based (in part) on the evolving attitudes of their member institutions and other financial safety net partners. Many financial and non-financial industry actors have demonstrated a commitment to prioritising and improving ESG outcomes.

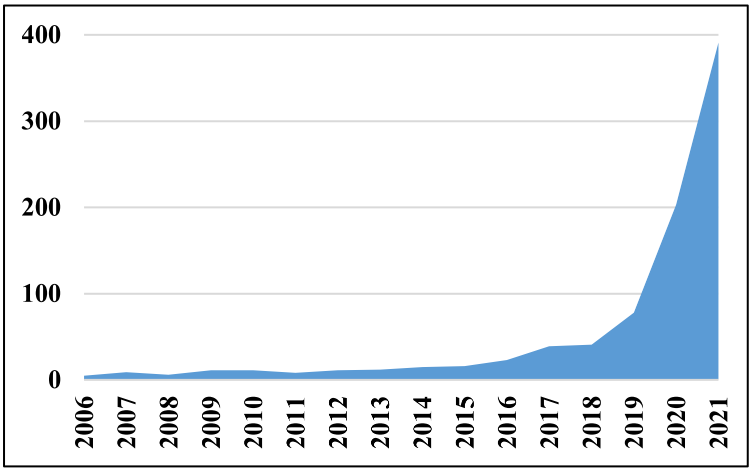
There is growing and broad-based momentum throughout the corporate sector to meet an array of non-financial outcomes. The motivation for an increased focus on ESG obligations is multi-faceted. Through empirical studies many firms have concluded that their clients value non-financial contributions, and will incorporate this factor (with relatively high weight) in their consumer choices. Tools such as social media have enabled unprecedented levels of direct communication between corporates and their clients which further underscores the need to articulate common values with which to build more substantial long-term relationships. Still, there is a downstream balance sheet argument being made to shareholders – that fostering deeper relationships with customers through articulation of common purpose –

---

[5] Bhagat (2022)
[6] Further critiques of ESG principles are well established but not discussed further in this paper.
[7] Aramonte & Zabai (2021); BIS (2021); Ehlers et al. (2022); Ehlers et al. (2021); Scatigna et al. (2021); Schmieder et al. (2021)
[8] Adrian (2022); Smith (2021)
[9] Calice & Palermo (2021); Gratcheva et al. (2020); Inderst & Stewart (2018)
[10] Brown & Nuttall (2022); Pérez et al. (2022)
[11] De Lisa (2021); Defina (2022); Schangel (2021); Van Roosebeke & Defina (2021); Van Roosebeke & Defina (2022)
[12] As of September 2022. Many of these deposit insurers operate as legal entities within their central bank (where their central bank is an NGFS member).

will ultimately benefit long term profitability. Increasing demand for ESG ratings among corporates often accompanies this dynamic, to formalise and certify ESG credentials to improve engagement with stakeholders.

Figure 1: Global ESG ETF assets, 2006-2021 (USD, billions)



Source: Statista.com

Numerous measures demonstrate the nature of ESG sectoral growth. Bloomberg Intelligence (rather provocatively) forecasts that "The $4 trillion ESG debt market could swell to $15 trillion by 2025".[13]

ESG EFTs offer a flexible mechanism to invest in a diversified portfolio of bonds and/or equities that meet certain ESG requirements. The volume of global ESG EFT assets has grown exponentially within the last five years from a very low base (Figure 1). Total asset volume in 2021 amounted to almost USD 400 billion, which is double the previous reporting year, which was subsequently more than double the year before.[14]

A major area of ESG-focussed growth within the financial sector is fund management. Innovations in ESG-compliant financial instruments (e.g. green bonds and green investment funds) have simplified the explicit prioritisation of companies and/or projects meeting ESG objectives, along with corresponding capital allocations.

The reasons for likely future growth in ESG-integrated funds are compelling. Wu (2022) presented five reasons: (1) demand is led by investors; (2) technology is driving product innovation; (3) companies are being encouraged to take action; (4) investment research is increasingly focused on sustainable outcomes; and (5) the energy transition is creating new risks and opportunities.

2 Taking stock: ESG and deposit insurers

2.1 Data source

IADI conducted the 2022 Survey of Deposit Insurers' Consideration of ESG Issues and the Role of Climate in Fund Management among its members in 2022Q3 [15] Responses were received from 43 organisations, representing approximately 45% of the total IADI membership.[16] All respondent-level survey data is available to IADI members via

---

[13] Henze & Boyd (2022)

[14] https://www.statista.com/statistics/1297487/assets-of-esg-etfs-worldwide/

[15] Full questionnaire is available in the Appendix.

[16] Responses were received from Seguro de Depósitos Sociedad Anónima, (Argentina); Armenian Deposit Guarantee Fund, (Armenia); Azerbaijan Deposit Insurance Fund, (Azerbaijan); Deposit Insurance Corporation, (Bahamas); Fundo Garantidor de Créditos, (Brazil); Fundo Garantidor do Cooperativismo de Crédito / Credit Cooperatives Guarantee Fund, (Brazil); Canada Deposit Insurance Corporation, (Canada); Credit Union Deposit Insurance Corporation of British Columbia, (Canada (British Columbia)); Autorité des marchés financiers, (Canada (Québec)); Central Deposit Insurance Corporation, (Chinese Taipei); Guarantee Fund of Cooperative Entities / Fondo de Garantías de Entidades Cooperativas (FOGACOOP), (Colombia); Fondo de Garantías de Instituciones Financieras (FOGAFIN), (Colombia); Deposit Insurance Fund, (Czech Republic); Corporación del Seguro de Depósitos (COSEDE), (Ecuador); Instituto de Garantía de Depósitos, (El Salvador); Finnish Financial Stability Authority, (Finland); Fonds de Garantie des Dépôts et de Résolution (FGDR), (France); Deposit Protection Fund of German Banks - Association of German Banks, (Germany); Hellenic Deposit and Investment Guarantee Fund (TEKE), (Greece); National Deposit Insurance Fund of Hungary, (Hungary); Indonesia Deposit Insurance Corporation, (Indonesia); Deposit Insurance Corporation of Japan, (Japan); Jordan Deposit Insurance Corporation, (Jordan); Kenya Deposit Insurance Corporation, (Kenya); Korea Deposit Insurance Corporation, (Korea); Deposit Protection Agency of the Kyrgyz Republic, (Kyrgyz Republic); Malaysia Deposit Insurance Corporation, (Malaysia); Instituto para la Protección al Ahorro Bancario, (Mexico); Deposit Insurance Corporation of Mongolia (DICoM), (Mongolia); Moroccan Deposit Insurance Corporation / Société Marocaine de Gestion des Fonds de Garantie des Dépôts Bancaires (SGFG), (Morocco); Nigeria Deposit Insurance Corporation, (Nigeria); Norwegian Banks' Guarantee Fund, (Norway); Philippine Deposit Insurance Corporation, (Philippines); Bank Deposit Guarantee Fund, (Romania); Fondo de Garantía de Depósitos de Entidades de Crédito (FGD), (Spain); esisuisse, (Switzerland); Deposit Protection Agency, (Thailand); Deposit Insurance Corporation, (Trinidad and Tobago); Savings Deposit Insurance Fund (SDIF), (Turkey); Financial Services Compensation Scheme, (United Kingdom); Federal Deposit Insurance Corporation, (United States); Individuals' Bank Deposit Guarantee Fund, (Uzbekistan); Deposit Insurance of Vietnam, (Vietnam)

the exclusive member workspace.[17]

Charts below indicate that survey responses are reasonably representative of the IADI membership. However, there is an underrepresentation of pay-box and overrepresentation of pay-box plus mandates as compared to the 2022 IADI Annual Survey. Hence results will skew towards the view of deposit insurers with a wider suite of resolution tools. In terms of geography, the survey underrepresents the African region quite significantly, and therefore assertions concerning this region should be made with a degree of caution.

Figure 2: ESG survey representativeness by mandate

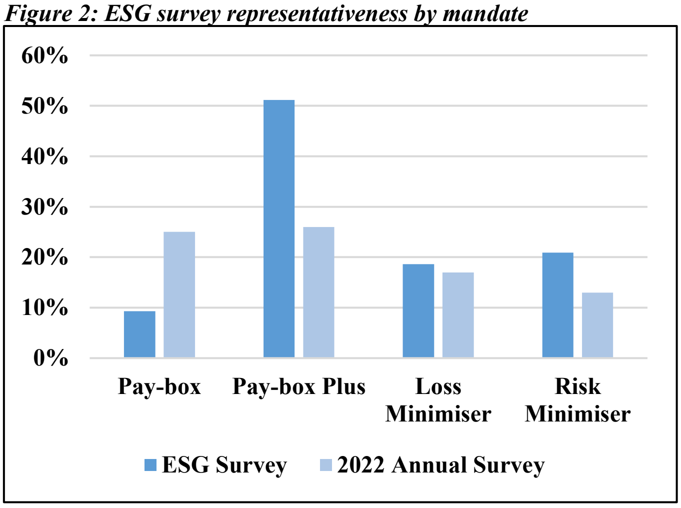
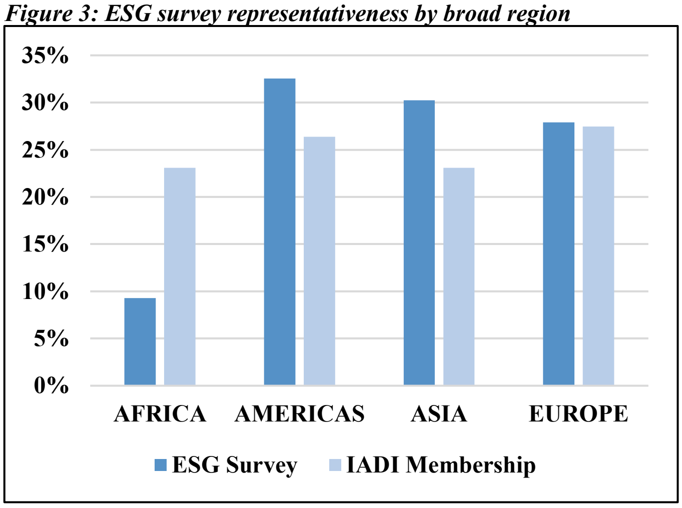


Figure 3: ESG survey representativeness by broad region



Source: 2022 IADI Survey on Deposit Insurers' Consideration of ESG Issues and the Role of Climate in Fund Management

One conclusion that might be drawn based on the characteristics of survey participants is that those deposit insurers with either narrow mandate or domiciled in the African region were less likely to participate in the survey. Whether this also means they are less likely to engage with ESG issues, remains to be investigated.

2.2 ESG policies and deposit insurers

2.2.1 The concept of ESG policies

For the purposes of this stock-taking, we define ESG policies as a formalised framework covering environmental, social or governance issues and that goes beyond existing legal obligations in a given jurisdiction. The aim of the latter restriction is to mirror the voluntary nature of ESG policies and to cover only such frameworks that require an active decision by the deposit insurer. Abiding with existing legal obligations on environmental (e.g. environmental law), social (e.g. equal pay) or governance (e.g. conflicts of interest) issues, should be self-evident and is not interpreted to be an ESG policy.

It is important to stress that as a consequence and given that legal obligations on these issues may vary significantly across jurisdictions, the (lack of) presence of an ESG policy at a deposit insurer does not allow for a meaningful comparison of ESG achievements across jurisdictions. As an example, deposit insurers without a formal ESG policy that operate in a jurisdiction with high environmental legal standards may reach higher environmental standards than deposit insurers with a formal ESG policy that operate in a jurisdiction where the ambition regarding environmental legal standards is less elevated.

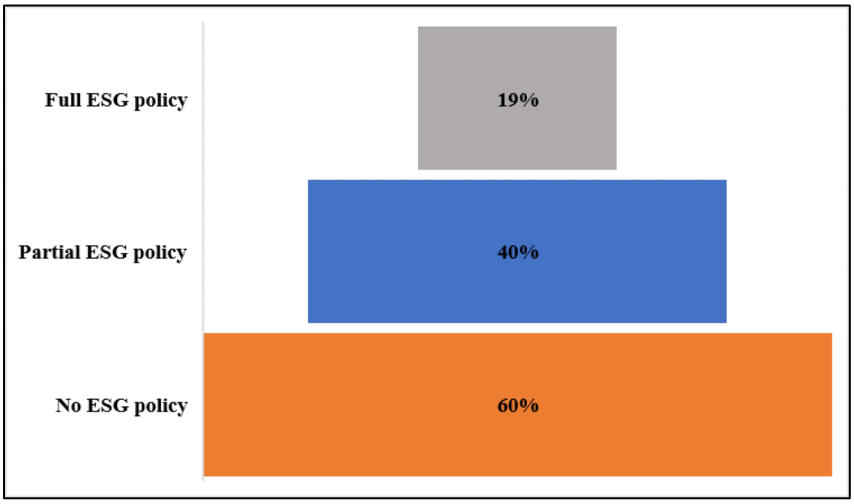
This paper does not aim at conducting such a comparative exercise or promote the adoption of ESG policies for all deposit insurers as this is a decision for the insurer and its jurisdictional policymakers. Rather, we aim at gaining insights in deposit insurers' practices in going beyond – in a voluntary and not legally enforceable manner – what legal obligations in respective jurisdiction prescribe.

[17] https://www.ebis.org/rooms/IADI/CouncilCommittee/CPRC/survey/SitePages/Home.aspx (IADI member login required)

2.2.2 Prevalence of ESG policies and policy elements

As of 2022, the majority of participating deposit insurers do not have a formalised ESG policy. Of those deposit insurers participating in the survey:

Figure 4: Prevalence of ESG policies at deposit insurers



Source: 2022 IADI Survey on Deposit Insurers' Consideration of ESG Issues and the Role of Climate in Fund Management

- Sixty percent report not having a policy on ESG issues in place (covering E or S or G) that goes beyond existing legal obligations;
- About one in five deposit insurers (19%) report to have a formal policy that covers all three ESG factors; and
- Forty percent of deposit insurers have a formal policy in place that covers at least one of the three ESG factors ("partial ESG policy").

The jurisdictions with full ESG policies (see annex) vary by mandate and region. It is however notable that no pay-boxes are included in this list, with each having access to additional resolution tools. This adds to the early suggestion above that those deposit insurers with broader mandate may be more likely to consider the relevance of ESG policies to their operations.

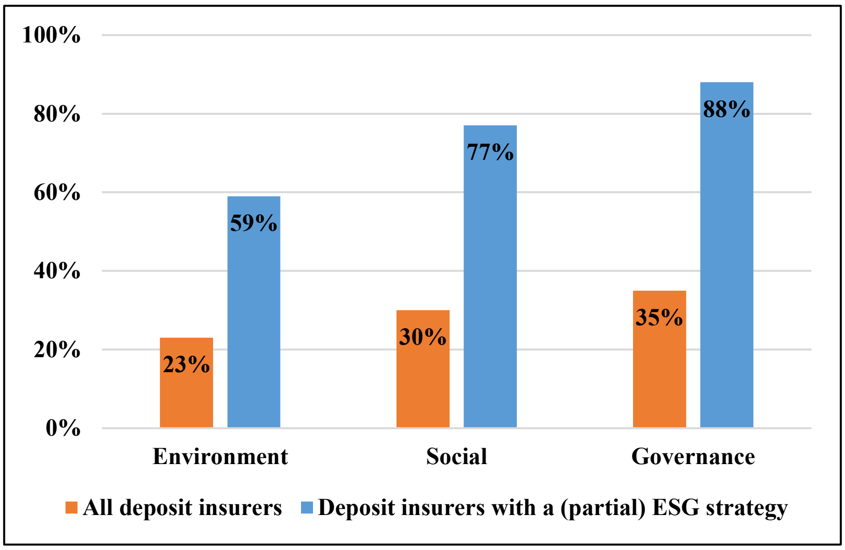
Governance issues are most often formalised into ESG policies by deposit insurers, followed by social and environmental issues (see Figure 5).

Of all deposit insurers participating in the survey, governance issues have most often been formalised into a policy. This concerns 35% of respondents. Formal social policies are reported to be in place by 30% of deposit insurers. Only about one of four (23%) deposit insurers report to have a formal policy in place that cover environmental issues in excess of legal obligations.

In the sample of deposit insurers that have a formal ESG policy in place (including partial policies), governance policies are most prevalent (88%), followed by social (77%) and environmental policies (59%).

Overall, this demonstrates the relative importance of governance issues to the core business of deposit insurers. Those seeking to establish a formal ESG policy might interpret this as a signal for where targeted results may be easiest to achieve.

Figure 5: Prevalence of ESG policy elements



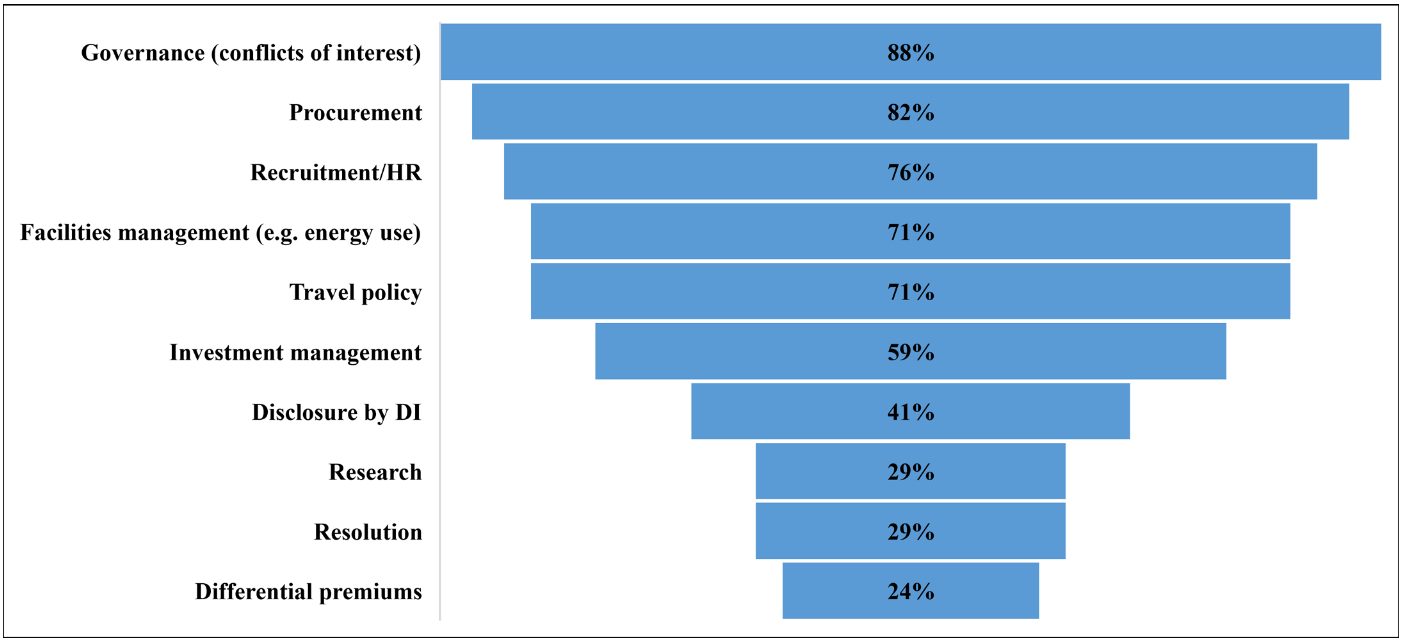
Source: 2022 IADI Survey on Deposit Insurers' Consideration of ESG Issues and the Role of Climate in Fund Management

2.2.3 Focal elements of existing ESG policies

A more detailed look at the design of deposit insurers' ESG policies reveals five elements that are present in almost 70% of existing ESG policies. These concern: conflict of interest policies, procurement, recruitment, facilities management and travel (see Figure 6).

The focus of governance aspects ("G") in deposit insurers' ESG policies is reflected by the high relevance of conflict-of-interest policies (88%), procurement policies (82%) and recruitment policies (76%) within the ESG policies in place. Procurement policies mostly cover governance related issues such as non-discrimination and due diligence. In a limited number of cases however, procurement policies also cover environmental aspects.

Figure 6: Relevant elements of ESG practices



Source: 2022 IADI Survey on Deposit Insurers' Consideration of ESG Issues and the Role of Climate in Fund Management

Social elements ("S") of deposit insurers' ESG policies are mostly to be found in the recruitment policies. These policies include an important element of governance policy (mostly through the intention to avoid favouritism) but they regularly also entail social policy elements. A high number of respondents cite non-discrimination policies[18] (often referring to gender, sexual orientation and ethnicity), although it is not always clear whether these go beyond legal obligations applying to all. A limited number of deposit insurers refers to staff diversity as a policy goal by itself.

Environmental policy elements ("E") are most clearly reflected in practices covering facilities management and travelling, which are both subject to a set of rules in 71% of ESG policies. Facilities management is typically reported to aim a reducing the carbon footprint. Recurring elements include policy to reduce the use of energy (through limits on heating and air-conditioning), paper and water. Travelling policies are also often reported to aim at reducing the carbon footprint. This includes prioritising virtual meetings and events, working-from-home policies and a diverse set of policies offering financial support to the use of public transport, pooled shuttle transport and bikes.

[18] The Federal Deposit Insurance Corporation has published a Diversity Strategic Plan: https://www.fdic.gov/about/diversity/pdf/dei2021.pdf. This plan is designed to ensure talent acquisition practices consistently provide equal opportunity and strive to close representation gaps at all levels. Among the variables considered are gender, race, disability status, veteran status, and first generation professional status.

2.3 Key characteristics of ESG policies

By definition, ESG policies go beyond what is legally prescribed. Given their voluntary character, they are not legally enforceable and this may negatively impact on them being put in practice. Making an ESG policy publicly available may mitigate this risk. It exposes the deposit insurer to potential public pressure and to a reputational risk when not abiding to the policy.

Our survey results demonstrate that about half (47%) of deposit insurers with a formal ESG policy make this policy publicly available and is hence exposed to these disciplinary factors (Figure 8). This overall picture is confirmed by the fact that 41% of deposit insurers with an ESG policy state that ESG issues are a relevant factor in the disclosure policy.

Figure 8: Deposit insurers subject to mandatory disclosure

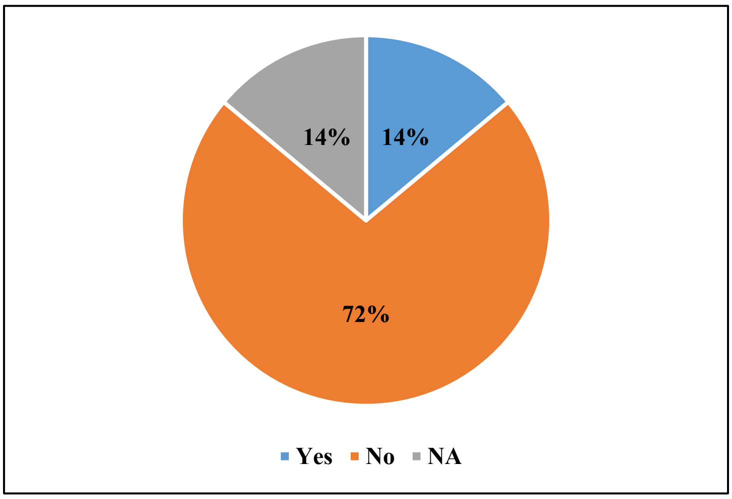
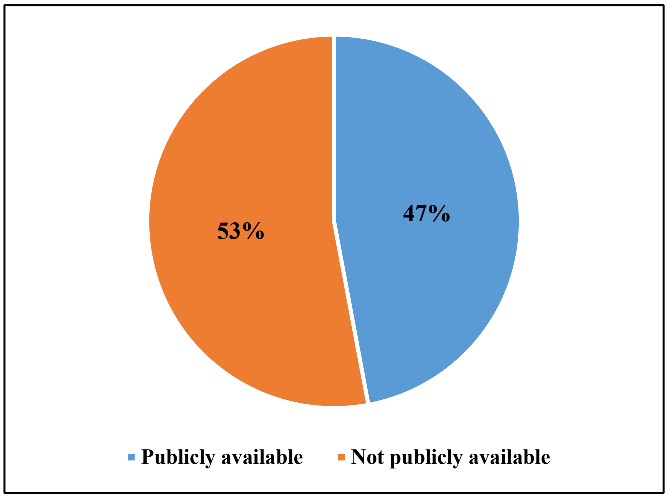


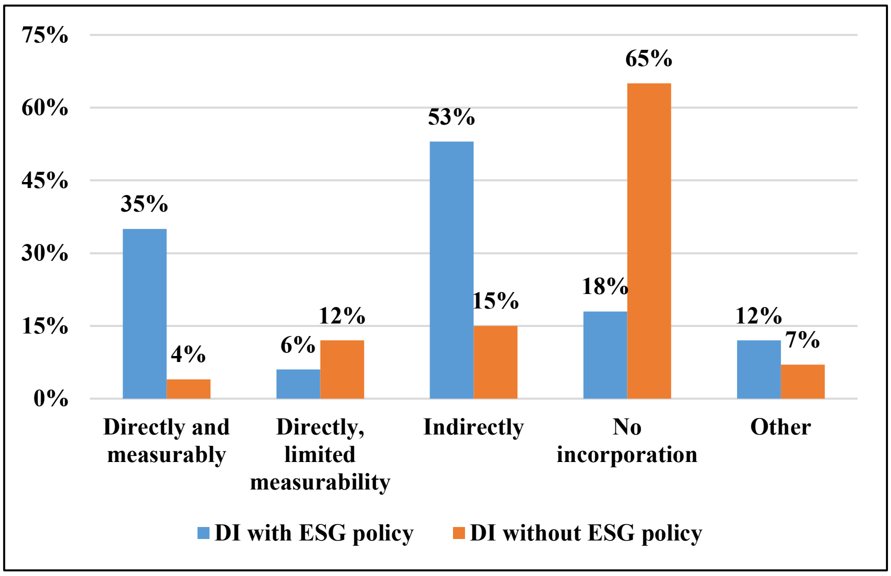
Figure 7: Public disclosure of ESG policy



Source: 2022 IADI Survey on Deposit Insurers' Consideration of ESG Issues and the Role of Climate in Fund Management

Legal disclosure obligations regarding ESG issues could further exert pressure on deposit insurers to develop an ESG policy and/or to adhere to an existing policy. Overall, only 14% of deposit insurers participating in the survey are subject to such mandatory disclosure (Figure 7). Amongst those deposit insurers that report to have an ESG policy in place, this share raises to 24%. However, this correlation doesn't allow for conclusions on the causation. In other words: it remains to be investigated whether the mandatory disclosure is a cause or rather a consequence of deposit insurers adopting ESG policies.

Figure 9: ESG and key performance indicators (method of incorporation)



Source: 2022 IADI Survey on Deposit Insurers' Consideration of ESG Issues and the Role of Climate in Fund Management

Both for internal and external parties, measuring adherence to ESG policies is not always an easy task. Policy aims may be operationalised in varying manners and by use of different benchmarks. Moreover, these may not always be directly quantifiable or measurable.

Survey results demonstrate (Figure 9that roughly four out of ten deposit insurers with an ESG policy regularly attempt to measure ESG performance directly. About one third of these deposit insurers (35%) incorporates ESG performance in key performance indicators (KPI) through directly measurable metrics and another 6% considers metrics that are not easily measurable.[19] About half (53%) of deposit insurers with an ESG policy incorporate ESG considerations into KPIs in an indirect manner. Adding to the picture of a high self-commitment of about 80%, only one out of five (18%) of these deposit insurers does not incorporate the ESG policy into KPIs.

It is of interest to note that having a formal ESG policy does not seem to be a precondition for incorporating ESG factors into key performance indicators. About 30% of deposit insurers that have not adopted a formal ESG policy report to incorporate ESG factors in KPI in different manners.

3 Outlook and expectations

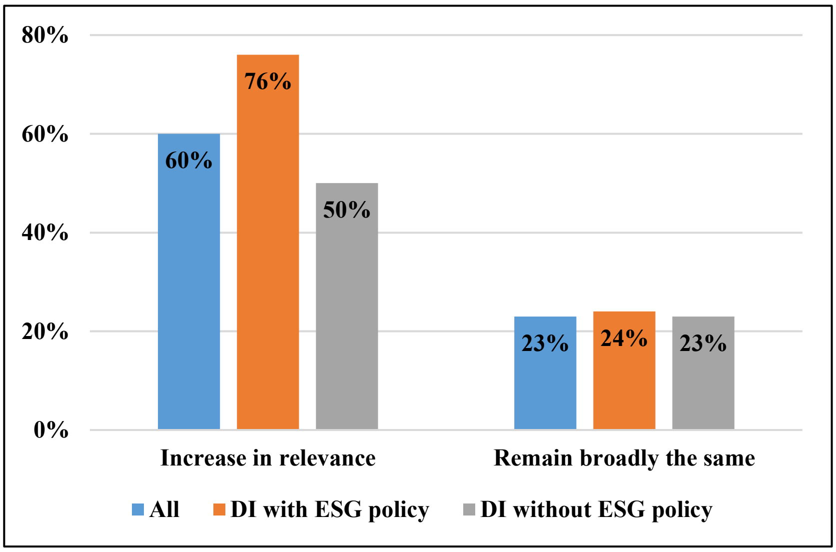
3.1 Future relevance of ESG

Overall, deposit insurers expect the relevance of ESG considerations to increase in the short term. This finding does not cover the general relevance of ESG, but specifically covers the relevance of ESG for core activities of deposit insurers.

Over the next two years, 60% of deposit insurers expects ESG relevance to increase. In the group of deposit insurers with a formal ESG policy, this share raises to 76%. Although this likely explains why these deposit insurers have adopted an ESG policy in the first place, it is noteworthy that they expect a further increase of importance of the topic in the near future. Of those deposit insurers without ESG policy, half expects ESG to grow in importance for core DI activities.

Over all subsets of the sample, a constant share of about one fourth of deposit insurers expects the relevance of ESG for deposit insurers to remain unchanged. Note that this may imply varying levels of absolute relevance across jurisdictions.

Figure 10: Expectations on ESG-relevance for core DI activities over the next two years



Source: 2022 IADI Survey on Deposit Insurers' Consideration of ESG Issues and the Role of Climate in Fund Management

Whereas 17% of deposit insurers did not voice expectations of future ESG relevance for deposit insurers, not a single deposit insurer across the sample expressed the expectation for ESG relevance to decrease.

A selection of the areas where this increase in relevance is expected to materialise includes:

- Adoption of a formal ESG policy
- Climate-risk based differential premiums
- Increased expectations on ESG-reporting by DI and members institutions
- Adoption of ESG criteria in fund management
- Research on the impact of green transition on bank deposits
- Impact of climate change on risks relevant to deposit insurance
- HR, including diversity
- Increased stakeholder expectations on ESG issues
- DI Facilities management

[19] Data points do not add up to 100% as multiple answers were possible.

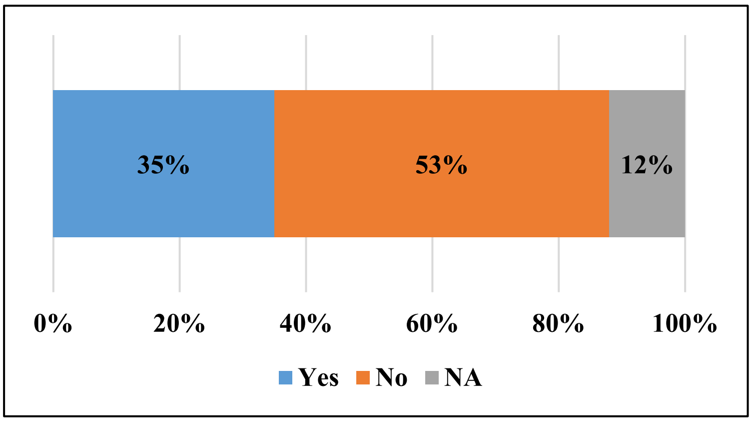
3.2 Disclosure duties for deposit insurers

As illustrated above, only 14% of deposit insurers are subject to such mandatory ESG disclosure. Amongst the large group of deposit insurers that are not subject to such obligation, only 13% expect to be subjected to such a legal obligation in the next two years and 77% does not anticipate the introduction of mandatory disclosure requirement for the deposit insurer in the near future.

At the same time, it is interesting to note that mandatory ESG disclosure covering deposit insurers' member institutions is in place in 35% of participation jurisdictions (and absent in 53%). Interestingly, these disclosure duties are more relevant in the group of jurisdictions where the deposit insurers report not to have adopted an ESG policy (38%) than in the group where deposit insurers have such strategy (29%). This data may be biased due to the legal situation in the European Union, where banks are subject to such disclosure.

Whether such obligation on members of deposit insurers may eventually increase the pressure and hence the likelihood of the deposit insurer itself being subjected to a similar disclosure obligation, remains to be investigated.

Figure 11: Mandatory ESG disclosures for member institutions

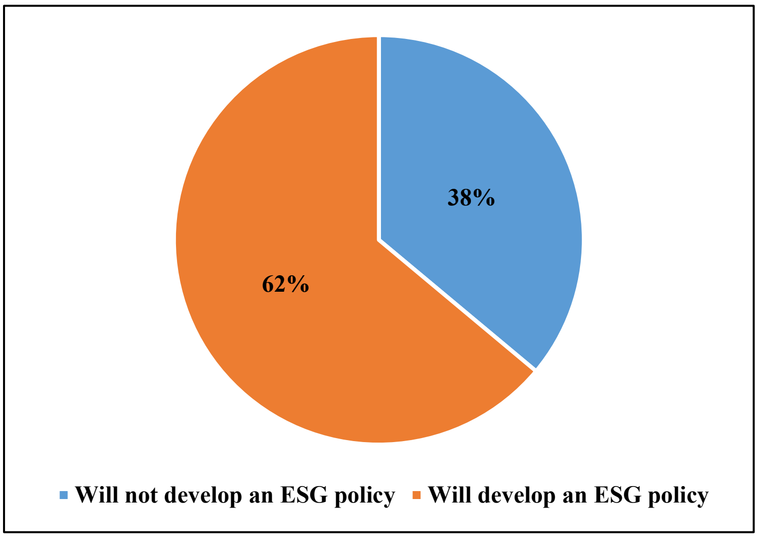


Source: 2022 IADI Survey on Deposit Insurers' Consideration of ESG Issues and the Role of Climate in Fund Management

3.3 Deposit insurers and future ESG policies

As illustrated above, 40% of deposit insurers participating in the survey reported to have a (partial) ESG policy in place.

Figure 12: Expectations of DI without ESG policy on developing a policy in the next two years



Source: 2022 IADI Survey on Deposit Insurers' Consideration of ESG Issues and the Role of Climate in Fund Management

The remaining 60% of deposit insurers has no formal ESG policy as of today. Within this group, 62% of deposit insurers expects to develop a (partial) ESG policy within the next two years.

If this were to materialise, this would raise the share of deposit insurers with a formal ESG policy from 40% in 2022 to 77% in 2024.

A number of respondents point out that they do (plan to) consider ESG-issues, but (will) do so without formal ESG policy or within the framework of a high-level national ESG strategy, to which the deposit insurers is subjected.

Areas mentioned to be included in a future ESG policy are broadly consistent with the ESG-issues that have been identified to be of growing relevance (see 3.1).

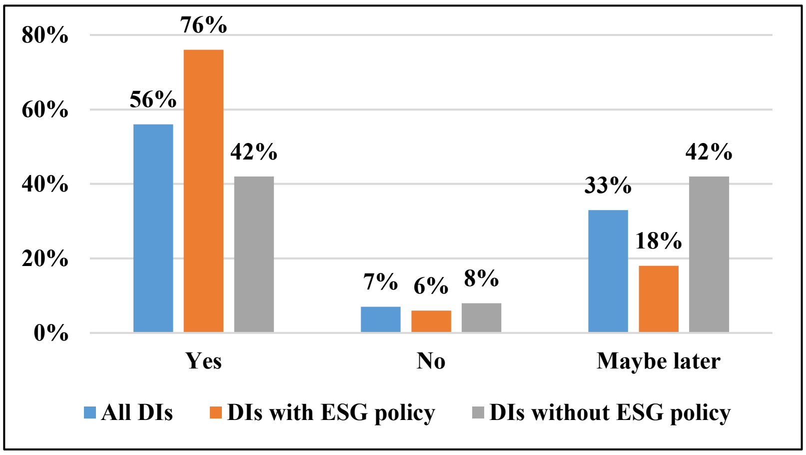
3.4 IADI research and guidance on ESG

About six in ten deposit insurers flag ESG as an area in which they would benefit from further research and eventually guidance by IADI. Support is markedly higher amongst those deposit insurers that have an (full or partial) ESG policy (76%). Amongst those without such policy, less than half of participants see an immediate need for research or guidance (42%).

It remains to be seen whether the reported development of such ESG policy in high number in the next years, and the nature of such policies that may evolve, will lead to further demand for research and guidance. An early indication for this could be that a high share (42%) of deposit insurers that are yet without ESG policy report that they could well favour research and guidance at a later stage.

Few deposit insurers (less than 10%) see no need for further research and guidance in ESG matters by the Association. This finding holds for both deposit insurers with and without ESG policy.

Figure 13: Need for IADI research or guidance on ESG



Source: 2022 IADI Survey on Deposit Insurers' Consideration of ESG Issues and the Role of Climate in Fund Management

4 Conclusion

The following results summarise key themes derived from the survey data:

Observation A	Forty percent of deposit insurers have a formalised policy in place covering at least one of the three ESG elements, and about half of those deposit insurers make this policy publicly available. Mandatory ESG disclosure by deposit insurers is not wide-spread and deposit insurers do not expect this to change soon.
Observation B	Deposit insurers with a broader mandate seem to be more likely to consider the relevance of ESG policies to their operations.
Observation C	Governance ('G') aspects of ESG are the most commonly prioritised by deposit insurers. Priority issues for ESG strategies concern conflicts of interests, procurement, recruitment, facilities management and travel.
Observation D	Sixty percent of deposit insurers believe ESG considerations will grow in relevance for core deposit insurer activities over the next two years. Three out of four deposit insurers with a ESG policy expect so. Not a single deposit insurer expressed the expectation that ESG relevance will decrease.
Observation E	Sixty percent of deposit insurers without ESG policy expect to develop a (partial) ESG policy within the next two years. In that case and based on the survey sample, the share of deposit insurers with a formal ESG policy would raise from 40% in 2022 to 77% in 2024.
Observation F	The majority of deposit insurers reports a need for IADI research or guidance on ESG issues, with demand higher amongst those with an ESG policy. Less than 10% see no need for work in this area.

5 References

Adrian, T. (2022). Shaping The Frontier of Sustainable Finance in Emerging Markets. *Remarks at the 7th Global Meeting of the Sustainable Banking and Finance Network, April 2022.*

Aramonte, S., Zabai, A. (2021). Sustainable finance: trends, valuations and exposures. *Bank for International Settlements Quarterly Review, September 2021.*

Bhagat, S. (2022). An Inconvenient Truth About ESG Investing. *Harvard Business Review, March 2022.*

BIS. (2021). A prototype for green bond tokenisation by Digital Asset and GFT. *Bank for International Settlements Innovation Hub, November 2021.*

Henze, V., Boyd, S. (2022). ESG May Surpass $41 Trillion Assets in 2022, But Not Without Challenges, Finds Bloomberg Intelligence. *Bloomberg press announcement, January 2022.*

Bolton, P, Despres, M., Pereira de Silva, L.A., Samama, F., Svartzman, R. (2020). The green swan – central banking and financial stability in the age of climate change. *Bank for International Settlements, 2020.*

Brown, S., Nuttall, R. (2022). The role of ESG and purpose. *McKinsey & Company, January 2022.*

Calice, P., Palermo, D. (2021). Deposit insurers and resolution agencies should act now to protect the financial safety net from climate risks. *World Bank Blogs, December 2021.*

De Lisa, R. (2021). Sustainability: fashion or emerging issue? An overview. *Remarks at the International Association of Deposit Insurers European Regional Committee and European Forum for Deposit Insurers Webinar, October 2021.*

Defina, R. (2022). Emerging Issues for Deposit Insurers and the Increasing Relevance of Inflation. *Remarks at the International Association of Deposit Insurers Africa Regional Committee Conference, August 2022.*

Ehlers, T., Elsenhuber, U., Jegarasasingam, A., Jondeau, E. (2022). Deconstructing ESG scores: how to invest with your own criteria. *Bank for International Settlements Working Papers, No. 1008.*

Ehlers, T., Gao, D., Packer, F. (2021). A taxonomy of sustainable finance taxonomies. *Bank for International Settlements Papers, October 2021.*

European Commission. (2021). European green deal: delivering on our targets. *European Commission, 2021.*

Fan, Y. (2022). CDIC Chinese Taipei Case. *Remarks at the International Association of Deposit Insurers European Regional Committee and European Forum for Deposit Insurers Webinar, September 2022.*

Gratcheva, E., Emery, T., Wang, D. (2020). Demystifying Sovereign ESG. *EFI Insight-Finance, World Bank Group, 2020.*

IADI. (2014). IADI Core Principles for Effective Deposit Insurance Systems. *International Association of Deposit Insurers, November 2014.*

IADI. (2011). General Guidance for Developing Differential Premium Systems. *International Association of Deposit Insurers Guidance Paper, October 2011.*

Inderst, G., Stewart, F. (2018). Incorporating Environmental, Social and Governance (ESG) Factors into Fixed Income Investment. *World Bank Group, April 2018.*

Pérez, L., Hunt, V., Samandari, H., Nuttall, R., Biniek, K. (2022). Does ESG really matter—and why? *McKinsey Quarterly, August 2022.*

Scatigna, M., Xia, D., Zabai, A., Zulaica, O. (2021). Achievements and challenges in ESG markets. *Bank for International Settlements Quarterly Review, December 2021.*

Schangel, A. (2021). ESG and Deposit Insurance. *Remarks at the International Association of Deposit Insurers*

European Regional Committee and European Forum for Deposit Insurers Webinar, October 2021.

Schmieder, C., Tissot, B., Peronaci, R., Quang, P., Candus, E., Triebskorn, E., Izzati, N., Artman, M. (2021). Sustainable finance data for Central Banks. *Irving Fishing Committee on Central Bank Statistics Report, No. 14.*

Sipiczki, A. (2022). A Critical Look at the ESG Market. *Centre for European Policy Studies (CEPS) Policy Insights, No. 2022-15, April 2022.*

Smith, V. (2021). Investing in a Sustainable Future. *International Monetary Fund, September 2021.*

The Economist. (2022). ESG should be boiled down to one simple measure: emissions. *The Economist, July 2022.*

Van Roosebeke, B., Defina, R. (2022). Deposit Insurance in 2022: Global Trends and Key Emerging Issues. *International Association of Deposit Insurers Research Paper, February 2022.*

Van Roosebeke, B., Defina, R. (2021). Climate Change Fever: Can Deposit Insurers Stay Cool? *International Association of Deposit Insurers Policy Brief, No. 5.*

Wu, J. (2022). Five reasons why the future of ESG investing is long term. *J.P. Morgan Asset Management ESG Outlook, February 2022.*

6 Appendix

Annex 1: Jurisdictions with full ESG policy reported

JURISDICTIONS WITH FULL ESG POLICIES			
Jurisdiction	Name of Deposit Insurer	Mandate	Region
Canada (Québec)	Autorité des marchés financiers	Risk Minimiser	Americas
Chinese Taipei	Central Deposit Insurance Corporation	Risk Minimiser	Asia
Finland	Finnish Financial Stability Authority	Pay-box Plus	Europe
Japan	Deposit Insurance Corporation of Japan	Loss Minimiser	Asia
Kenya	Kenya Deposit Insurance Corporation	Risk Minimiser	Africa
Nigeria	Nigeria Deposit Insurance Corporation	Risk Minimiser	Africa
Spain	Fondo de Garantía de Depósitos de Entidades de Crédito	Pay-box Plus	Europe
Trinidad and Tobago	Deposit Insurance Corporation	Pay-box Plus	Americas

Annex 2: SURVEY QUESTIONNAIRE ON DEPOSIT INSURERS' CONSIDERATION OF ESG ISSUES AND THE ROLE OF CLIMATE IN FUND MANAGEMENT

This survey covers two related and emerging issues:

Part 1 of this survey focusses on whether and how deposit insurers consider environmental, social and governance ("ESG") issues in their operations. The survey aims at gathering insights on the current and expected future relevance of this issue for deposit insurers and in the way it is operationalised. Also, your feedback on the benefits of IADI guidance on this issue is sought.

Part 2 of this survey focusses on the consideration by deposit insurers of climate related issues when investing funds. The survey aims at gaining a better understanding of the role of climate risks in traditional risk management. Also, it aims at gaining an overview of the current and expected future relevance of climate investment policies for deposit insurers, that attach weight to climate (or other ESG) considerations in a manner that goes beyond the consideration of risks only. We aim at identifying your opinions on challenges, risks and opportunities in this regard. (Question on part 2 are omitted from the Appendix.)

PART 1: ESG and Deposit Insurers

The following part focusses on the consideration of ESG issues by deposit insurers. This part of the survey entails:

- General Questions
- Legal Background
- Concluding questions

General Questions

1. Does your organisation have a formalised policy on ESG related issues that goes beyond existing legal obligations?

- o Yes, please select all factors that apply within the scope of this policy:
  - Environmental (E)
  - Social (S)
  - Governance (G)
- o No

2. [If 'Yes' to previous] Which of the following areas of the ESG policy or practice are explicitly relevant? [Select all that apply]

- o Facilities management (e.g. energy use)
- o Travel policy
- o Governance of the deposit insurer (e.g. avoiding conflicts of interest, information security or data protection)
- o Recruitment activities / human resource management
- o Disclosure policy of the deposit insurer
- o Procurement / selection of collaboration partners / contracted parties
- o Research
- o Incorporation in differential premium levying
- o Investment management and/or strategy
- o Resolution activities
- o None of the above
- o Other (please specify below)

Other, please specify:

3. [If 'No' to previous] Do you expect your organisation to develop an ESG policy (including a policy covering only E or S or G) within the next two years?

- o Yes, please specify:
- o No

If Yes, please specify the areas that are likely to be covered:

4. [If 'Yes' to previous] Is the deposit insurer's ESG policy publicly available?

- o Yes
- o No

If Yes, please provide a link to the policy:

5. Over the next two years, concerning core activities of your DI, do you expect ESG considerations to:

- o Increase in relevance/importance (please specify below)
- o Decrease in relevance/importance
- o Remain broadly the same

Any additional comments as to the areas in which you expect ESG considerations to be relevant:

6. [If selected 'Facilities Management' in Q2] Please provide some details on how ESG policies are explicitly related to facilities management. Which variables play a role (energy use, etc.)? Please only include factors that are not already prescribed by law.

Please specify:

7. [If selected 'Travel Policy' in Q2] Please provide some details on how ESG policies are explicitly related to your organisation's travel policy.

Please specify:

8. [If selected 'Governance' in Q2] Please provide some details on how ESG policies are explicitly related to your organisation's governance.

Please specify:

9. [If selected 'Recruitment activities / human resource management' in Q2] Please provide some details on how ESG policies are explicitly related to recruitment activities. Which variables play a role (gender, race, work-life balance, etc)? Please only include factors that are not already prescribed by law (e.g. laws banning discrimination on the basis of gender).

Any additional comments:

10. [If selected 'Selection of collaboration partners / contracted parties' in Q2] How are ESG considerations currently incorporated in the assessment of collaboration partners / contracted parties?

Please specify:

11. [If selected 'Disclosure policy of the deposit insurer' in Q2] How are ESG considerations relevant to your organisation's disclosure policy?

Please specify:

12. Are ESG considerations incorporated in key performance indicators? [Select all that apply]

- Directly through establishment of KPI metrics that are measurable (e.g. energy use)
- Directly through establishment of KPI metrics that are not easily measurable (e.g. public perception)
- Indirectly, and thus considered/incorporated in some capacity in performance assessment(s)
- No
- Other, please specify:

Other, please specify:

Legal Background

13. Is your organisation currently subject to mandatory disclosure of ESG-related issues?

- Yes
- No

Please specify:

14. [If 'No' to previous] In your jurisdiction, over the next two years, do you anticipate mandatory disclosure requirements of ESG-related issues for the deposit insurer?

- Yes
- No

Please specify:

15. In the past 12 months, have changes in laws and regulations in your jurisdiction been adopted that directly affect your organisation and that impact ESG considerations?

Please specify: (e.g. legal right to work remotely, etc.)

16. In your jurisdiction, are mandatory disclosure requirements of DI member institutions in place that incorporate ESG factors?

- Yes
- No

Please specify:

Concluding Issues

17. Would you be interested in a follow-up interview to further discuss ESG considerations in your jurisdiction, and to potentially be included as a case study in relevant IADI paper(s)?

    - Yes
    - No

Any additional comments:

18. Do you see a benefit for IADI to devote resources to research and eventually guidance on ESG for deposit insurers?

    - Yes
    - No
    - Maybe at a later stage

Previous issues in this series

No 1 May 2021	Impact of the COVID-19 Pandemic on Deposit Insurance	Ryan Defina (IADI)
No 2 February 2022	COVID-19 and Covered Deposits	Bert Van Roosebeke and Ryan Defina (IADI)
No 3 June 2022	COVID-19 and Deposit Insurer Fund Sizes	Bert Van Roosebeke and Ryan Defina (IADI)