



# Climate Action in Financial Institutions

PRINCIPLES FOR MAINSTREAMING CLIMATE ACTION

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## YES BANK's Environment and Social Policy (ES P) Addresses Climate Risks through a Multi-Step Implementation Process with Identified Inter-Department Responsibilities

Principle

Related Work Stream(s)



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Date Policy/Tool Established	How Established?	How Implemented	Additional Capacity Required (e.g., staff, resources, other)
January, 2006	Instituted by Board approval to be appended to the credit policy as a guiding document for credit decisions.	<p>The ESP is structured under two major categories and follows a multi-step process mentioned below:</p> <p>a) Mainstreaming environmental and social considerations</p> <p>b) Safeguarding the environment and society and managing risks.</p> <p>Process followed in ESP:</p> <ul style="list-style-type: none"> <li>• Identification of risks and categorization</li> <li>• Appropriate mitigation mechanisms</li> <li>• Pre-investment process—</li> <li>• Desk assessment and if needed E&amp;S due diligence</li> <li>• Frequent Monitoring</li> <li>• Reporting</li> <li>• Training</li> </ul>	<ul style="list-style-type: none"> <li>• Resources with relevant experience in environmental, social and climate risk assessment and management;</li> <li>• Regular training and capacity building for relationship managers who are the face of the bank to customers;</li> <li>• Additional due-diligence activity which is cost intensive;</li> <li>• Awareness sessions for stakeholders like media, customers, other financial institutions on the importance of integrating environmental and social issues into lending practices.</li> </ul>

## Key Lessons

- Climate risks are also to be identified prior to project implementation, to advise appropriate mitigative measures, despite uncertainty attached to them.
- Educating the clients on the significance of non-financial risk mitigation is equally important, as this needs to be a collaborative action.
- Relevant expertise is non-debatable to translate policy into action, which is highly region-specific (difficult in the Indian subcontinent, due to its diverse geography). YES BANK follows a knowledge based approach, with domain experts on payroll who help make better credit decisions.

## Introduction

Environmental and Social considerations are increasingly becoming a measure of a company's performance. These issues are impacting financial bottom lines, long term brand value, risk profiles, competitiveness and business sustainability. Given this scenario, it is necessary to evolve appropriate standards that provide a benchmark for company assessment and performance. Due to the increased incidence of threats from climate-change, the financial sector is moving towards developing measures to monitor and mitigate these newly identifiable risks. YES BANK believes that it is important for the financial sector to stay ahead of the curve and check all boxes, i.e. meet short term profitability expectations through traditional lending and investing and also nurture sustainable finance business verticals that will deliver triple bottom line results in the long term. In order to have a 360 degree risk mitigation framework, YES BANK has instituted this policy in 2006, drawn from the Equator Principles, IFC guidelines and other international best practices and is integrated with the overall credit risk analysis framework at the Bank, ensuring the Bank lends responsibly.

## Development and Design

The establishment of the process is driven by a designated team under the aegis of Responsible Banking & Risk Management teams under the guidance of MD & CEO. The Responsible Banking team is responsible for the administration and oversight of the ESP of the Bank and the Risk team is responsible for implementing it along with assistance from the project finance team demonstrating a seamless cross functional collaboration.

## Implementation

In detail, the ESP follows a multi-step process and is structured under two major categories: a) mainstreaming environmental and social considerations and b) safeguarding the environment and society and managing risks:

- **Identification and Mitigation of risks:** The appraisal includes consideration of three key elements: (i) the environmental and social impacts and issues associated with the proposed project; (ii) the capacity and commitment of the client to address these impacts and issues in accordance with this Policy; and (iii) the role of third parties in achieving compliance with this Policy. YES BANK has dedicated resource in the risk management team, in addition to the relationship management team, to assess projects/credit decisions from an E&S perspective, including due diligence and reporting among other things.
- **Pre-investment process:** The policy includes pre-investment procedures to assess adverse impacts, to check compliance to the requirements, along with templates for due diligence reports, requirement checklist, corrective action plan, if and when applicable.
- **Monitoring:** The Bank monitors compliance as relevant through annual reports on projects and site visits. In cases where considered necessary, the Bank may undertake a due diligence process. The framework for the monitoring of social and environmental impacts and risks of large sized projects includes clearly defined indicators, monitoring schedules, responsibilities and costs.
- **Reporting:** YES BANK captures the engagement with clients on ESP compliance in the client file, and the progress is documented and maintained.
- **Training:** The Bank conducts ESP related training for the relevant risk management and relationship management teams. So far, YES BANK has conducted a half-day E&S risk awareness training for top management (over 60 executives), followed by a one and half day training for the on-ground relationship teams (over 35 executives). YES BANK is set to conduct vertical-focused trainings on E&S due diligence and risk assessment. In addition, a comprehensive module on the ESP is included in the structured induction programme for new employees, run every quarter.

- **Sustainability Series:** YES BANK partnered with Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), United Nations Environment Programme Finance Initiative (UNEP FI) and Responsible Investment Research Association (RIRA) to launch the 'Sustainability Series', and increase awareness on Environmental, Social and Governance (ESG) risks in debt, equity and insurance sectors. The 'Sustainability Series' was the first initiative in India to create a knowledge platform that trained finance professionals in expanding their risk management skills to incorporate environmental and social risks. Through this initiative, the bank has sensitized media, customers and other financial institutions on this pressing need.

## Experience and Impact

The ESP has served as the main channel to imbibe sustainability in the organization. Though it has taken a few years to translate the policy into action, it has proven as a base to build inter-departmental relations that paved the way for Green Bonds, consideration of the Green Climate Fund among many other initiatives.