Principles for
Responsible Banking:
Guidance for banks

UN environment programme | finance initiative

Principles for
Responsible Banking

# Guidance on Client Engagement

## Disclaimers



**Suggested citation:** UN Environment Programme Finance Initiative (2024). Guidance on Client Engagement, Geneva.

**Cover photo:** elements.envato.com/user/Pressmaster/photos

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The content of this guidance does not constitute advice to members of the PRB. The choice to adopt guidance, best practice tools or actions is always at the discretion of individual banking members. This guidance represents recommendations for effective practice and is not prescriptive as to actions or decisions to be taken by members, including when and how they are expected to address sustainability topics. Members set and design their own individual targets, strategies, and policies, making their own unilateral decisions as designed and guided by their business activities and country context.

Further, any views expressed in this guidance do not necessarily represent the views of Working Group or Core Group members who assisted in the preparation of the guidance. Participation in the PRB 2030 project and its working groups should not be interpreted as a commitment to set targets, nor should it be construed as any form of collective action.

# Acknowledgements

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This guidance is based on discussions and work undertaken in the PRB 2030 Core Group, a working group comprising 27 PRB signatory banks. Together with UNEP FI, the Core Group was tasked with exploring the strategic development of the PRB framework, recognising the changing context since the PRB was launched in 2019 and the need to support positive progress.

We wish to also acknowledge contributions made by the PRB Civil Society Advisory Body members.

# Contents

# Executive summary

This guidance is meant to assist banks in taking action under Principle 3 of the Principles for Responsible Banking (PRB) framework, which states that signatories will work responsibly with clients and customers to encourage sustainable practices and enable economic activities that create shared prosperity for current and future generations. Client engagement is identified as one of the four categories of action that banks can take as part of their impact management work, as identified by the UNEP FI Impact Protocol for banks.

Banks are vital economic intermediaries and as such can make their most significant contributions to society's goals by creating synergies with clients, encouraging sustainable practices, and accompanying clients in their transition towards more sustainable business models and technologies. Partnering with their clients is an essential element in assessing a bank's impacts, understanding its risks and opportunities and achieving sustainability targets. In addition to contributing towards shared prosperity for current and future generations, enabling sustainable economic activities presents a clear business case for banks

The purpose of this document is to provide banks with sector-agnostic guidelines on engaging their clients as an enabler for meeting existing sustainability and impact targets and actions. This guide discusses the approach for effective client engagement and its corresponding success factors and is structured in two parts: the internal setup for client engagement, and client engagement activities in the form of an engagement cycle. This guidance aims to provide sector-agnostic and theme-agnostic high-level guidance for effective client engagement for key sustainability topics.[1]

While the elements and purpose of client engagement apply to all clients and customers, the depth and scale as well as nature of the client engagement process will differ depending on different client types—institutional banking (clients) and retail consumers (customers)–and banks' corresponding business activities. This guide largely focuses on the relationship between banks and their institutional clients but can be applied to retail customers as well, albeit with a different scale, depth and nature of the client engagement.

This guide is not prescriptive in nature. Rather, it aims to inspire and inform, while recognising that client engagement is a highly individualised practice and each bank will dictate its own client engagement strategy, informed by its own business, client profiles, country content and regulatory/supervisory environment.

1 Sector-level and thematic-based guidance on client engagement are developed by respective thematic PRB Working Groups.

# Internal setup for client engagement

Effective client engagement depends on a robust internal setup composed of different elements, namely: (a) the respective governance, policies and processes to oversee and implement the strategy, (b) adequate data management infrastructure, (c) a portfolio impact analysis, (d) strategy development, as well as (e) capacity building for relevant staff.

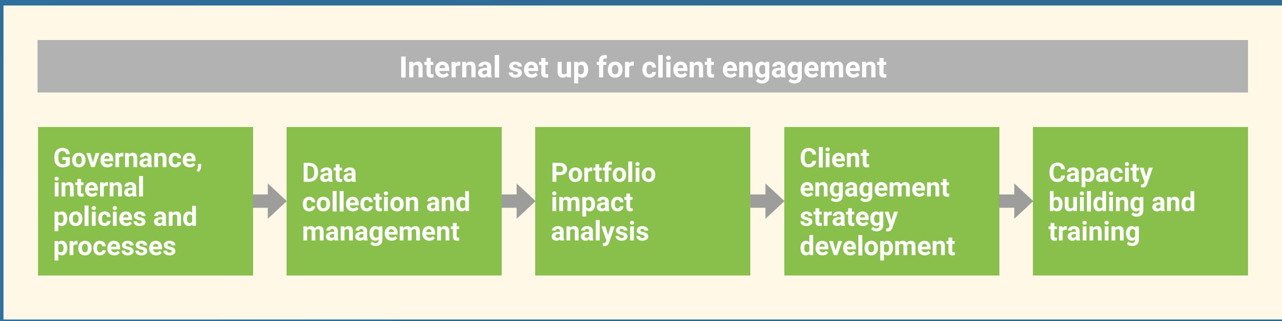


**Figure 1:** Internal set up for client engagement

- **Governance:** Banks should incorporate sustainability and responsible banking into well-established governance structures and relevant processes. Relevant governance structures include overall sustainability governance, in addition to client specific governance related to relevant processes. Relevant processes can include risk modelling and management, underwriting, credit analysis, annual reviews and portfolio management. The roles and responsibilities of leadership, committees, operational entities and client-facing staff should be established and development of individuals within those roles should be supported.
- **Data collection and management:** Banks should utilise and build upon the bank's internal data management infrastructure to collect and manage client sustainability data. Data must inform a bank's client engagement strategy, as well as support ongoing monitoring and evaluation of client progress.
- **Portfolio impact analysis:** Banks should use their impact analysis, performed under Principle 2, as a foundation for their client engagement strategy. The impact analysis results can help identify which clients and/or sectors should be engaged and on which impact topics.

- **Client engagement strategy development:** The bank's client engagement strategy is core to the achievement of a bank's own sustainability and impact targets. Client engagement strategies can take various forms and banks should aim to incorporate sustainability and responsible banking perspectives into their existing client engagement strategies to accelerate progress on relevant impact and sustainability targets and KPIs

- **Capacity building and training:** Training and conducting internal capacity building for bank employees beyond the sustainability teams is crucial to successful client engagement. Elements to build capacity on are expertise on sustainability matters, database access, understanding clients' baseline and the comparability of client metrics.

All of these are not to be seen as static elements and need to be informed, amended and worked on throughout the client engagement process, taking into account learnings from the impact analysis process, established client engagement targets, changes in the regulatory and socio-economic context or evolution in terms of technologies.

# Cycle for an ongoing client engagement

The guiding practices supporting an effective client engagement shapes a cycle with different stages.

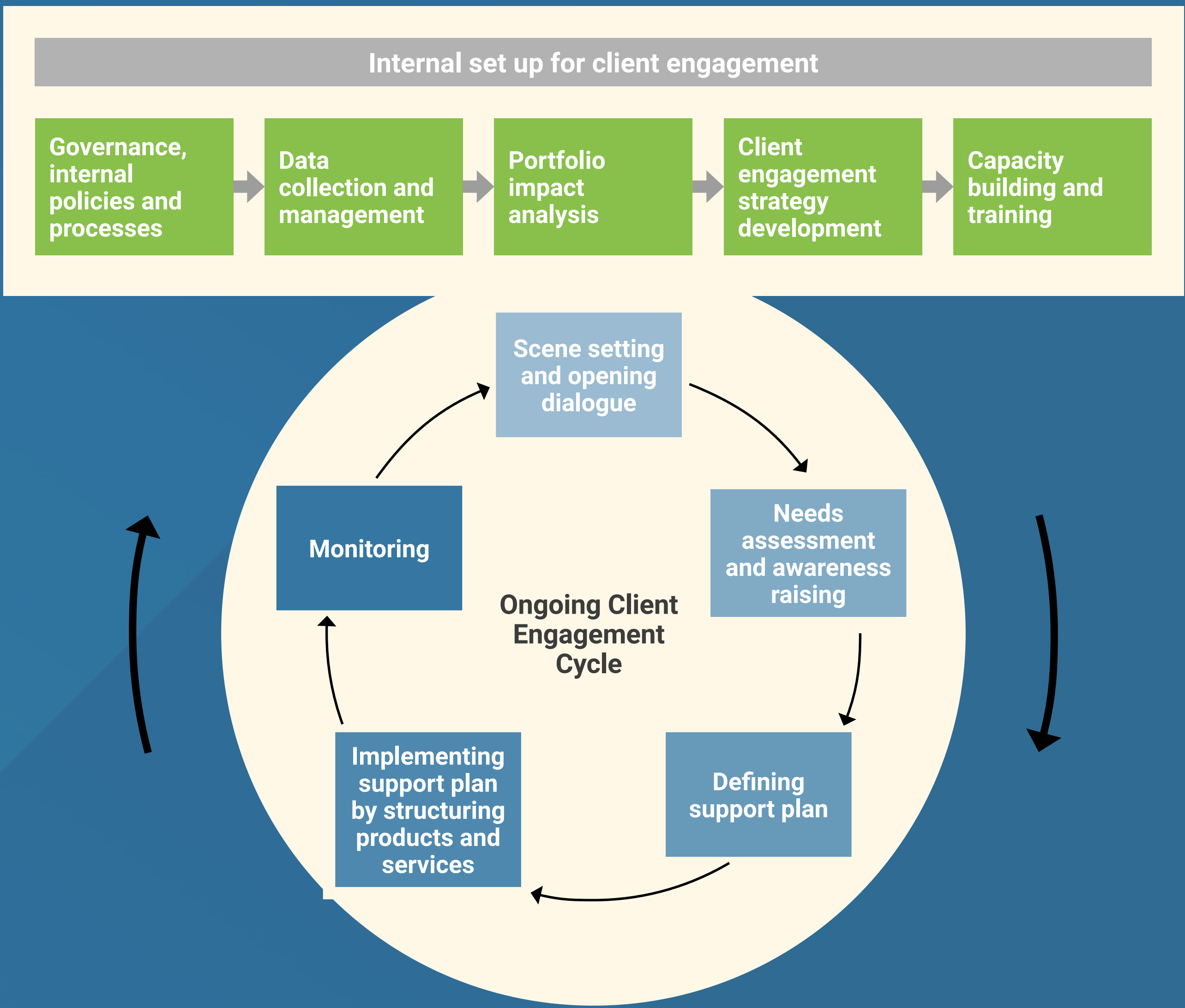


**Figure 2:** Overview of client engagement cycle

Following the development of the banks' client engagement strategy and building on the internal setup for client engagement, the client engagement cycle has five stages:

- **Scene setting and opening dialogue:** Banks should start by communicating any established sustainability and impact targets, in addition to the results of the banks risk and impact assessments, to clearly communicate expectations of clients. Banks should then identify where and how they can support their clients in reducing negative impacts and increasing positive impacts through adopting new technologies, business models and practices. In the beginning, it is important to understand where clients are in their sustainability journey.

- **Need assessment and awareness raising:** During this phase, banks should (1) achieve a better understanding of their clients' performance, (2) determine the baseline and maturity level regarding sustainability performance, and (3) raise awareness about sustainability needs and ensure the benefits of sustainability actions are clear to clients. This conversation can often be linked with scene setting and opening dialogue conversations.
- **Defining support plans:** Banks should identify ways in which they can support their clients via sustainable finance solutions and enabling economic activities that create shared prosperity for current and future generations. Banks should develop a client support plan and offer the proposal to their clients.
- **Implementing support plan:** Banks can develop new products and services to encourage and support their clients' sustainable business models, technologies, and operation. Developing new opportunities can also help banks meet their sustainable finance and capital mobilisation targets.
- **Monitoring:** Utilising collected data, banks should review the progress achieved by clients against their sustainability strategy on a consistent basis, to ensure clients are making sufficient progress against predetermined timelines and expectations. If no progress is observed, banks can consider escalating action in line with their timebound client engagement strategy, which may result in ultimate exit of the client relationship if necessary.

# 1. Introduction


This document sets out to guide effective client engagement to promote responsible banking.

Through Principle 3, within the Principles for Responsible Banking (PRB) framework, signatories commit to encouraging sustainable practices (inclusive of environmental and human rights impacts) and supporting the transition to sustainable business models and lifestyles of their clients and customers. In line with the Principles for Responsible Banking Framework Documents, banks are required to partner with their own clients and customers to assess the banks' impacts and accompany them in the transition to more sustainable business models and lifestyles. Banks can work towards fulfilling their commitment and managing their own risks and opportunities by supporting their clients and customers' transition. Client engagement is identified as one of the four categories of action that banks can take as part of their impact management journey, as identified by the UNEP FI Impact Protocol for banks.

Recognising the need to articulate elements of effective client engagement, this guidance was developed to support PRB Signatories in overseeing and managing the internal change associated with implementing their PRB commitment and delivering against their sustainability and impact targets, as well as pursuing responsible banking strategies and cultures more generally.

This guide aims to support banks in working responsibly with their own clients to implement their sustainability and impact targets and action plans. By enabling sustainable economic activities, banks can pursue a clear business case via their client engagement approaches: clients that are shifting to sustainable business models and technologies are better prepared for emerging regulations and are better positioned to succeed in economies that need to transition towards a future-proof way of operating. The purpose of the document is therefore to provide banks with guidelines on engaging clients and customers as an enabler for meeting existing targets and actions and with an inspirational overview of elements of effective practice in working with clients and customers.

This guide largely focuses on the relationship between banks and their institutional clients (further defined in Chapter 3). Engagement with retail customers may nonetheless remain critical in furthering the banks journey towards becoming a responsible bank, and further guidance will be provided on this topic in future publications.

The guide is sector- as well as theme-agnostic, thus applicable to different thematic areas as well as business lines within banks, and ranges from having meaningful conversations with corporate and business clients about their financing needs for transitioning their business models to approaches for retail customers and their financing needs. It is drafted for individual banks' use and thus focuses on the individual bank's engagement efforts (one-to-one engagement and one-to-many engagements).[2]

2 Engagement efforts bundling different banks (many to one- or many to many-engagements) are not in scope.

# 2. The importance of Principle 3: Clients and customers

Through their PRB commitment, signatories agree to work responsibly with their clients and customers to encourage sustainable practices and enable economic activities that create shared prosperity for current and future generations. They also commit via their Chief Executive Officers to the ambitions set out in the following six Principles:

| | |
|---|---|
| Principle 1: **Alignment**<br>We will align our business strategy to individuals' needs and society's goals, as expressed in the SDGs, the Paris Agreement and relevant national and regional frameworks. | Principle 2: **Impact & Target Setting**<br>We will continuously increase our positive impacts while reducing the negative impacts on, and managing the risks to, people and environment resulting from our activities, products and services. To this end, we will set and publish targets where we can have the most significant impacts. |
| Principle 3: **Clients & Customers**<br>We will work responsibly with our clients and our customers to encourage sustainable practices and enable economic activities that create shared prosperity for current and future generations. | Principle 4: **Stakeholders**<br>We will proactively and responsibly consult, engage and partner with relevant stakeholders to achieve society's goals. |
| Principle 5: **Governance & Culture**<br>We will implement our commitment to these Principle through effective governance and a culture of responsible banking. | Principle 6: **Transparency & Accountability**<br>We will periodically review our individual and collective implementation of these Principles and be transparent about and accountable for our positive and negative impacts and our contribution to society's goals. |

Through Principle 3: Clients and Customers, signatories undertake to implement their commitment by actively engaging their clients and customers to promote responsible conduct, encourage sustainable practices, and enable economic activities.

Banks are vital economic intermediaries and as such can make their most significant contributions to society's goals by creating synergies with clients, encouraging sustainable practices, and accompanying clients in their transition towards more sustainable business models and technologies. As per fig. 3 below, banks' most significant impacts on society, the economy, and the environment, are indirect; they are associated with the activities of banks' clients and customers.

This guide largely focuses on the relationship between banks and their institutional clients (further defined in Chapter 3). Engagement with retail customers may nonetheless remain critical in furthering the banks journey towards becoming a responsible bank, and further guidance will be provided on this topic in future publications.

**Impacts in the Banking Value Chain**

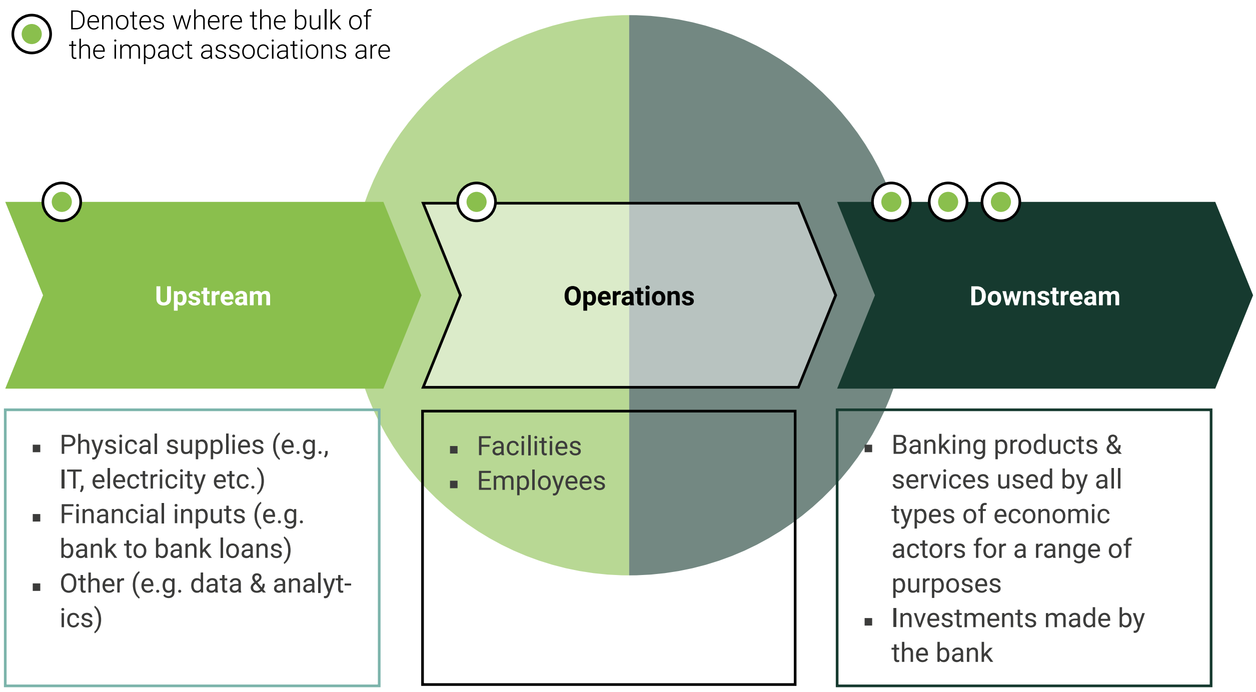


**Figure 3:** Impacts in the banking value chain. (Source: UNEP FI, adapted from Impact Management Platform content)

## 2.1 Engagement objectives

Partnering with clients is an essential element in assessing a bank's impacts, understanding its risks and opportunities and achieving sustainability outcomes. In addition to contributing towards shared prosperity for current and future generations, enabling sustainable economic activities presents a clear business case for banks in two ways:

- Supporting existing clients in their business model transition has positive effects for banks, as those clients that are shifting to sustainable business models and technologies are generating a) long-term value, potentially greater profitability and economic resilience, and b) new opportunities for financing activities to support the investment for the shift to new technologies arise;

- Striving for new clients operating in the sustainable economy allows the banks to open new areas of business.

Accompanying clients in their journeys to contribute to society's sustainability goals enables stronger relationships and can position the respective bank as the partner of choice. A strong relationship between banks and their clients—built on trust—is crucial for any bank's success. Responsible conduct is the foundation of trust. Furthermore, getting to know clients' better drives business growth and supports improved risk management for banks. The purpose of client engagement is to support clients towards transitioning their business models in line with sustainability goals by strategically accompanying them through a variety of relationship channels, ranging from awareness raising campaigns, to engaging specific clients on their impact profile and transition pathways/plans, and to structuring tailored financing solutions for client transitions.

Client engagement is a continuous activity to enable banks to accompany client transition to more sustainable business operations with mutual trust. Banks should aim to incorporate sustainability and responsible banking perspectives into their existing client engagement strategies to accelerate progress. It should be embedded in banks' business strategies and interconnected with respectively building upon banks' implementation of the other five Principles:

**Principle 1 (Alignment):** Client engagement is embedded in the bank's sustainability strategy.

**Principle 2 (Impact & Target-setting):** Client engagement builds on the bank's impact analysis (including impact areas identified to engage clients and customers upon) and the baseline of targets set and feeding into the bank's impact management work; a bank may also set targets for capital mobilisation and client engagement.

**Principle 4 (Stakeholders):** Working with stakeholders on data availability, an enabling policy environment and on alignment of disclosure standards, to support clients in their sustainability agenda and guarantee effective processes.

**Principle 5 (Governance & Culture):** Developing and building upon internal policies and processes, as well as training relevant staff on client engagement.

**Principle 6 (Transparency & Accountability):** Monitoring of client engagement efforts and transparency of results.

## 2.2 Client engagement targets

As part of their impact management work, banks are encouraged to align their client practices to manage both positive and negative impacts. In support of the bank's existing sustainability and impact targets, banks are encouraged to set targets related to their client engagement activities and the financing and capital flow needs of clients. Such targets should be focused on engaging relevant high priority clients, as identified by the bank's portfolio impact analysis performed under Principle 2. Examples of client engagement targets can be found in Table 1. The targets should be cascaded to business units, unless targets are already business unit specific, and integrated into their financial planning, stand in proportionality with the overall portfolio and provide transparency about capital allocation.

**Table 1:** Examples of client engagement targets

### Consumer banking

- To improve the financial health score, facilitate financial education training for low-income customers, increasing by 50% the number of customers with financial and digital skills by 2025. This will represent 60% of the bank's low-income clients.
- Increase the number of energy efficient mortgages provided to customers by 50% by 2025. To support this goal, provide educational materials to 75% of new loan applicants by 2025.

### Corporate banking

- Engage 90% of corporate clients in carbon intense sectors to set net-zero targets and support them in developing transition plans by 2025.
- Ensure that 90% of the bank's exposure to large corporate customers in climate-vulnerable sectors is covered by transition plans by the end of 2025.
- Engage 90% of key clients for resource efficiency and circular economy purposes in waste treatment and plastics/packaging sectors by 2025.
  - **2020 baseline**: 20% of key clients for resource efficiency and circular economy purposes in waste treatment and plastics/packaging sectors have been engaged.

## 2.3 Stakeholder engagement

In addition to direct client engagement strategies, outlined throughout this guidance, banks should consider the different types of stakeholder engagement needed to support the sustainable practices of their clients. Stakeholder engagements can include public policy advocacy to promote enabling policy environments that support ambitious private-sector action. Additional stakeholder engagement could include engagement of standard setters on alignment of disclosure standards to support clients in their sustainability agenda, guarantee effective processes, and reduce the potential burden of meeting differing regulatory requirements. Lastly, stakeholder engagement can include local communities, to understand the impact of a client's business operations on the community and environment; if direct engagement with the local community is not feasible, banks can look to engage with legitimate representatives of these communities, such as civil society organisations or trade unions.

# 3. Categorisation of clients and customers

While the elements and purpose of client engagement apply to all clients and customers, the depth and scale as well as nature of the client engagement process will differ depending on different client types and banks' corresponding business activities.

Broadly, there are two client types that can be categorised according to the business activities banks provide to them (see Table 2, Chapter 4.5):

- **Institutional banking:** Services including corporate, commercial and business banking to institutional clients, including legal business entities ranging from large corporations, to SMEs, to government agencies
- **Consumer banking[3] or retail banking:** Services to customers in the sense of physical persons (i.e. individuals)

The findings of the portfolio impact analysis (see Chapter 4.3) should identify which clients and customers to engage; in short, the clients and customers relevant for the impact matter being addressed.

As noted in the introduction, this guidance is largely focused on institutional banking clients, but the strategies outline can also be applied to engagement with retail customers. More detailed guidance on engagement with retail customers will be provided in future publications.

3 Consumer Banking is defined as provision of products and services to individuals (UNEP FI Portfolio Impact Analysis Tool Consumer Banking/Assessment Module v3).

# 4. Internal setup for client engagement

Effective client engagement depends on a robust internal setup composed of different elements, namely (a) the respective governance, policies and processes to oversee and implement the strategy, (b) adequate data management infrastructure, (c) a portfolio impact analysis, (d) strategy development, as well as (e) capacity building for relevant staff (see Figure 4). All of these are not to be seen as static elements and need to be informed, amended and worked on throughout the client engagement process, taking into account learnings from the impact analysis process, established client engagement targets, changes in the regulatory and socio-economic context or evolution in terms of technologies. Each of these elements are discussed below.

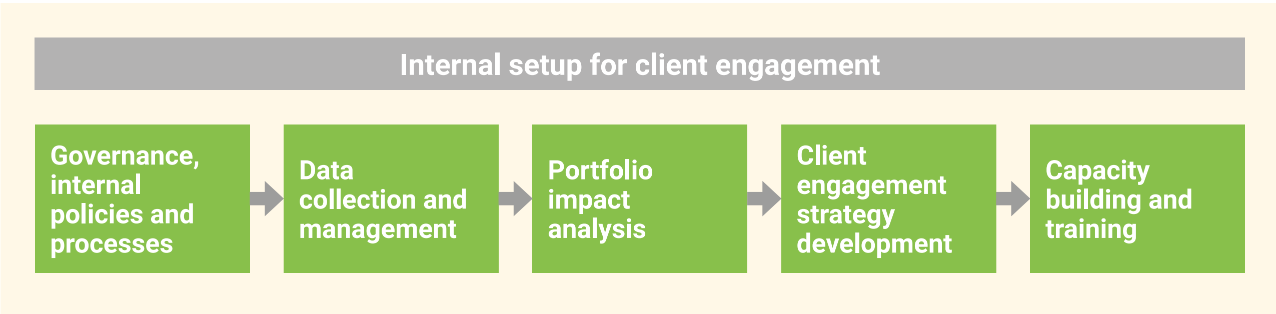


**Figure 4:** Internal setup for client engagement

## 4.1 Governance

Governance, defined as a set of structures, policies and processes, is important to oversee, incentivise and support the client engagement strategy. Therefore, the roles and responsibilities of leadership, committees, operational entities and client-facing staff should be established, including clear responsibilities of relevant business and risk units and decision-making authorities. Teams to involve include sustainability, commercial, product management, risk, among others.

Consistent leadership support for incorporating sustainability objectives into organisational culture, learning and development are success factors of effective client engagement. Embedding objectives of sustainability-focused client engagement in key governance elements, such as performance evaluation mechanisms or setting up incentives to achieve sustainability objectives, can be valuable enablers.

The incorporation of sustainability and responsible banking into well-established governance structures needs to be determined for relevant processes including risk modelling and management, underwriting, credit analysis, annual reviews and portfolio management. Policies pre-define the scope of client engagement, including policies that define exclusions for new business clients or some of their business activities and help avoid doing harm in line with the banks' sustainability and impact targets for respective areas.

See the Guidance on Effective Governance Practices for further information on governance and enabling organisational practices to promote responsible banking.

## 4.2 Data collection and management

An ongoing element and success factor for effective client engagement is data collection and management. With better data and insight capabilities, financial institutions can generate opportunities and innovative solutions with clients. Data must inform a bank's client engagement strategy, as well as support ongoing monitoring and evaluation of client progress.

Using the bank's internal data management infrastructure, optimising data collection and centralisation is crucial. Data enables banks to conduct due diligence on a clients' management systems, commitments, transition/action plans and performance in relevant impact areas. Following the outcome of the bank's portfolio impact analysis, the bank should define the relevant data needs to support the client engagement strategy.

To begin, third-party data can be used as input to client conversations. Therefore, before client engagement, the respective third-party sustainability data providers should be identified to procure relevant data. Leveraging data from other processes, e.g. from financial statements, GRI reporting, integrated reporting, or jurisdictionally required disclosures is also an option. Some corporates may also have leveraged the UNEP FI Impact Methodology, using the Impact Mappings or the UNEP FI Corporate Impact Analysis Tool.[4] Having an initial overview of client performance will help banks enter dialogue with clients on an informed basis and reduce the risk of clients feeling overwhelmed. The data needs to be made accessible for staff carrying out the assessments and engagements.

Apart from external data procurement, in-house data gathering is needed in most cases to fill the data gaps and add details to the conversation with clients. During onboarding, leveraging customary channels like Know Your Client (KYC) processes and integrating questions on client sustainability preferences is beneficial. Social and environmental indicators should be integrated into loan covenants, annual relationship management questionnaires, and data management systems and can be derived from risk analysis.

4 unepfi.org/impact/impact-radar-mappings/impactmappings/
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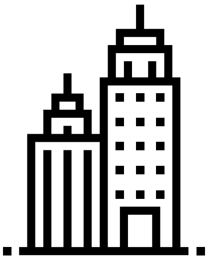


In case corporate clients fail to provide the requested data--and the needed data cannot be procured--developing an information plan for when to expect to receive relevant data is useful. In addition, it is crucial to ask clients for information on their significant impacts, environmental and social risks and assess potentially adverse impacts on other areas. Frameworks that banks are already using can be leveraged, in particular, the UNEP FI Impact Methodology, the CSRD or GRI reporting framework. Digital questionnaires can be provided for different sectors to help with the collection of both qualitative and quantitative data. When necessary, proxy data can be utilised to help fill in relevant information gaps.

Key points to assess (large) corporate clients throughout the engagement include:

- Board and senior management accountability and oversight
- KPIs on clients' sustainability performance against prioritised impact areas
- Sustainability focused materiality assessments
- Sustainability and impact targets (including interim targets) and associated progress
- Implementation plans, including action plans for achieving sustainability and impact targets, transition plans for achieving net zero emissions, OpEx/CapEx plans, low carbon technology, or employment etc.

A data driven approach should be the foundation of client engagement prioritisation. Banks should then be able to demonstrate reasonably robust and ongoing monitoring of client data points and engagement details to determine how they will engage or when and why they will disengage.

## 4.3 Portfolio impact analysis

Understanding the impacts banks are associated with (e.g. decent employment, climate mitigation, nature loss, etc.) enables them to take action where they can deliver the most impact. Banks can build upon the findings of their portfolio impact analysis which includes a review of their portfolio composition across several dimensions, including sectors, client types and regional context. The impact analysis results can help identify which clients and/or sectors should be engaged and on which impact topics. Aspects considered are:

- The composition of the client portfolio (both institutional and consumer banking, along with a range of products and services offered)
- The sector exposure of the institutional portfolios
- Region- and place-specific context in terms of needs and transition dynamics

The findings of the impact analysis should help define the priorities of engagement which are to be defined in the client engagement strategy. Banks can then set targets related to client engagement and the financing and capital flow needs of clients to support engagement prioritisation.

## 4.4 Embedding sustainability into banks’ client engagement strategies

Developing a client engagement strategy is core to support the achievement of a bank’s own sustainability and impact targets, including client engagement targets. Client engagement strategies can take various forms (e.g. broad or sector specific strategies), and banks should aim to incorporate sustainability and responsible banking perspectives into their existing client engagement strategies to accelerate progress. However, banks should keep in mind that such engagement is subject to the condition that the client is willing and able to align itself with the banks requirements within a given timeframe.

When developing client engagement strategies, banks can draw from existing external guidance, such as published sector transition pathways, policy and economic analyses, supply chain and technology developments, and existing client plans.

The following elements should be considered for inclusion in an effective client engagement strategy on sustainability matters and goals.

- **Strategy alignment:** The client engagement strategy should be aligned with the bank’s existing management and sustainability strategies.
- **Objectives:** The client engagement strategy needs to define clear objectives, identifying the purpose the engagement should fulfil (e.g. on which sustainability topics and why the bank is engaging clients in different areas). The objective can also link to how client engagement will support the bank’s existing sustainability and impact targets.
- **Governance:** An effective client engagement strategy sets out the relevant governance structure, including the involvement of senior leadership and relevant committees, and defines processes, including clear responsibilities of relevant business and risk units and decision-making authorities. Teams to involve include sustainability, commercial, product management, risk, among others.
- **Coverage and prioritisation:** Building on the portfolio impact analysis, banks need to determine which business lines are to be involved, and within each business line define priorities in terms of sectors, clients, regions, customer groups, and risk.
- **Workplan:** In order to establish and meet client engagement targets, method, frequency and channel of engagement need to be determined for different client types. Client engagement channels range from awareness raising campaigns, to engaging specific clients on their impact profile and transition pathways/plans, to structuring tailored financing solutions for their transitions. For example, events or individual meetings (one-to-one) can be defined as effective channels to engage large corporate clients, while more standardised solutions (one-to-many) such as regular letters, consultation materials, product updates, or brochures, can qualify as effective practice for smaller business clients or retail customers.
- **Monitoring and evaluation:** Based on the results of the bank’s portfolio impact analysis and the baseline data used to establish banks’ sustainability and impact targets, the bank can define relevant KPIs to monitor future progress. An evaluation process

should be defined to measure and evaluate clients' current and expected future progress, including assessment criteria (e.g. evaluation of client transition plans for climate mitigation).

- **Data gathering:** In line with established governance structures, banks need to identify and set up processes to collect client sustainability data directly from clients and/or third parties and define client information requests
- **Client engagement plans:** Engagement criteria need to be defined based on sector mapping, which will then trigger different engagement processes. Engagement criteria can be broken out into several engagement categories (e.g. challenge/avoid harm, engagement opportunity, seek out), based on the client's level of maturity and current risk exposure. Engagement plans should lay out both potential adverse and positive impacts to people and the planet and reference interlinkages with other impact areas which need to be addressed.
- **Escalation processes:** If clients do not deliver within a pre-defined and mutually agreed upon timeframe, banks need to determine a time-bound, clearly defined escalation process to determine if and how to continue to engage the client in the future. If clients continue to not deliver, and banks lack the leverage to mitigate adverse impacts or enhance positive outcomes, banks can consider reducing exposure to or possible exit from the relationship as the final step of the escalation process.

In addition to direct client engagement strategies, banks should identify the stakeholder engagement needed to support the sustainable practices of their clients, inclusive of public policy and civil society engagement.

To ensure compliance with all current and future regulations, banks should record relevant information associated with all decision points throughout the client engagement strategy development process. Proper documentation will enable effective auditing and assurance practices.

## 4.5 Engagement focus per client type

The results of the portfolio impact analysis and the insights derived from collected data can help to further categorise the different types of clients according to their:

- Type of ownership (publicly traded vs. privately held)
- Degree of regulation (regulated vs. unregulated)
- Level of maturity (unaware, aware, strategic/aligning, fully sustainable, flagged for phase-out)

There are correlations between these sub-categories and the types of clients according to business lines, e.g. large corporates tend to be regulated and publicly traded, whereas SMEs usually are privately held and less regulated.

**Table 2:** Categorisation of clients and customers

| | | Segmentation of types of clients and banking business activities | | |
|---|---|---|---|---|
| | | **Clients**<br>Institutional banking | | **Customers**<br>Retail customers/ individuals, consumer banking (physical persons) |
| | | Corporates, commercial banking | SMEs, business banking | |
| **Further categories** | **Regulated vs. Unregulated** | X | X | |
| | **Privately held vs. Publicly traded** | X | X | |
| | **Size** | X | X | |
| | **Maturity levels** low/medium/ high; unaware/ aware, strategic/ aligning, aligned, fully sustainable, managed phase-out | X | X | X |

Engagement prioritisation decisions can be made based on a banks leverage with the client, as well as the clients' financing needs and capital market access. Additional prioritisation decisions should be made based on the potential severity of impact for each client type (e.g. a focus on high carbon intensive sectors). Descriptions of expected engagement tactics and impact by client type can be found below.

**Corporate and commercial banking** clients are associated with a very wide range of impacts. For these clients, banks need to identify key/high risk sectors and regions, and within those the most significant clients in terms of their impact, i.e. the banks' largest clients as it relates to an impact area, as well as systemically important companies or market leaders in the respective market.[5] Depending on the individual bank, its client base, and country context, these can be major greenhouse gas emitters, major clients in high impact and dependency sectors[6] for nature, big clients in sectors with decent employment or gender equality gaps, etc. Understanding the regional context and priorities is also important in prioritising engagement efforts, as e.g. banks in emerging markets and/or the Global South may have a high dependency on nature or be disproportionately affected by the physical impacts of climate change. For corporate and commercial banking clients, the scale of impacts is usually high per company (including the corporate value chain) rather than through the volume of companies, which is why individual engagements (one-to-one) are necessary, providing individually structured financing solutions.

5 For a review of key sectors per impact topic, please consult the UNEP FI Key Sector Map here.
6 More information on how to determine high impact and dependency sectors can be found here.

**Public companies** often have investors and other stakeholders pushing them toward sustainable outcomes. Banks, therefore, can play a solution-oriented role with public companies by helping these clients meet existing sustainability focused goals. Depending on geographical markets and jurisdictions, both public and private companies may have lower incentives to act; banks therefore can play an advocacy focused role. Here banks can have a greater impact by supporting clients to move in a certain direction through the way financing products are structured.

Similar to banks' role supporting public vs private companies, their support for **regulated companies** can be rather solution-oriented, since in certain regions those companies have more of an incentive to disclose relevant information and act sustainably, given regulatory requirements. With unregulated companies, or with companies in regions lacking sustainability focused regulation, banks may have more of an enforcer role, by asking for relevant data as well as accompanying unregulated companies towards more sustainable outcomes.

**SMEs** as a client type can be drivers of positive impact via healthy & inclusive economies, while the negative impacts which they can be associated with are usually related to a particular sector or thematic area (e.g. agriculture). Engagement with SMEs can have a wide range of impacts. The scale of SME impacts can be maximised through the volume of companies engaged, rather than engagement on a company-by-company basis. Thus, bundling engagement efforts (one-to-many) and more concerted outreach to several SME clients may be more effective since individual engagement might be too costly and less efficient. Banks can look to engage this group of clients by offering tools to support clients to understand and manage their impacts. Examples include through incentivised offers, such as better loan rates for green projects or social benefit opportunities, or by offering to support education around regulatory offerings (e.g. tax incentives).

**Retail customers** are associated with a narrow range of impacts and through their consumption behaviour (e.g. housing, transportation, investments) react very sensitively to macro-economic circumstances (e.g. inflation). Banks should also identify potential retail customer segments and geographies that are under-serviced, with limited or no access to financial services and low financial health (including low financial literacy). Banks can then identify where they could encourage and support sustainable behaviour and consumption choices. The engagement efforts therefore may also be driven in a more standardised and scaled way, providing standardised solutions based on the identified common needs of a segment (one-to-many).

Finally, the **level of maturity** of a client within a given impact area will affect the engagement tactic and role of a bank. For clients that have a low level of maturity in a given impact area, a bank can play an awareness raising or educational role. This can include sharing resources focused on how the client can assess risk and take relevant action. Critical clients defined due to the severity of the potential impact, with a low level of maturity or awareness may need individualised and tailored engagement efforts, which may include higher levels of support. For clients with a high level of maturity in a given impact area, or that are strategically aligning their business model in a given impact area, banks can focus their engagements efforts on implementing pre-defined support plans and developing relevant financing products to support their clients. As clients move along the maturity scale, banks will likely begin to see and measure impact outcomes. See Chapter 6 for additional details.

## 4.6 Capacity building and training

Training and conducting internal capacity building for bank employees beyond the sustainability teams is crucial to successful client engagement. Particularly relationship managers, client-facing staff (both corporate and retail customers) and back-office areas need to be trained and upskilled to enable them to adequately help their clients navigate financial aspects of their sustainability priorities. The capacity building will also help address potential concerns of business facing bankers that sustainability and impact targets may curtail their ability to extend credit or limit their ability to meet targets for writing business by stressing that sustainability transitions can also present financing opportunities. Elements relevant to build capacity on can be expertise on sustainability matters, data management, understanding clients' baseline and the comparability of client metrics. Capacity building is to be seen as a dynamic and ongoing process in two ways, both upskilling relevant staff and feeding back insights gained in client engagements from different units to adapt strategy, governance and data management accordingly.

Training courses like the PRB Academy module on clients and customers or on different thematic environmental and social areas like the PRB climate and nature modules can be good starting points, as well as regular internal workshops between relevant units to leverage internal expertise and experience.

# 5. Cycle for ongoing client engagement

The guiding practices supporting an effective client engagement shapes a cycle with different stages as shown in Figure 5.

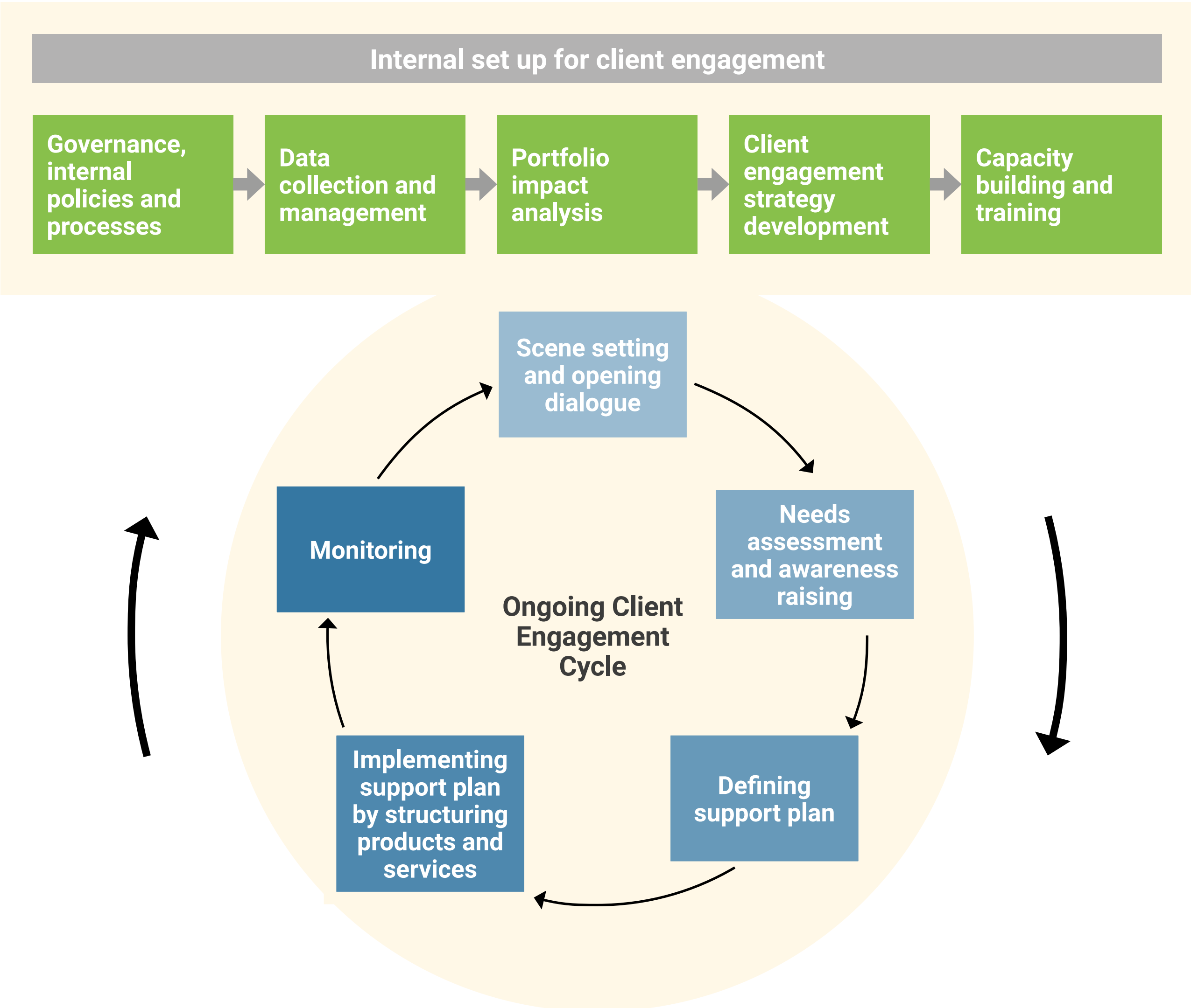



**Figure 5:** Overview of an ongoing client engagement cycle

Following the development and continuous re-evaluation of the banks client engagement strategy and building on the internal setup for client engagement, the client engagement cycle has five stages:

1. Scene setting and opening dialogue
2. Needs assessment and awareness raising
3. Defining support plan
4. Implementing support plan by structuring and offering products and services
5. Monitoring

By bringing in different departments and expertise within the bank, the cycle continues and evolves against the monitored progress achieved by clients. Insights from the client engagement cycle feed back into foundational elements like strategy and governance, data collection and management and portfolio impact management.

Ultimately the goal is to mobilise the capital that clients need to transform their businesses. Each of these five stages are discussed below.

## 5.1 Scene setting and opening dialogue

To open the dialogue with clients, banks should start by identifying where and how they can support their clients in reducing negative impacts and increasing positive impacts through adopting new technologies, business models and practices. In the beginning, it is important to understand where clients are in their sustainability journey. Topics to open the discussion can be those related to the broader sustainability context, including needs and challenges for the client's sector or the relevant socio-economic context (for climate mitigation, also recognised sectoral transition pathways). These conversations can help to define the maturity level of the client on the relevant impact or sustainability topics, if not known.

Banks can seize new business opportunities and product development offerings by strengthening the relationship with clients based on renewed discussions regarding clients' sustainability objectives. The insights obtained through client engagement present opportunities to build stronger client relationships and position the organisation as the preferred partner. In addition, banks can also inform clients about recent changes to the bank's policies or new information that will be required to collect. A bank's relationship management teams should frame client discussions carefully to foster a mutual learning process and inform clients of the bank's willingness to support clients in their transition.

Success factors for any bank to build a good foundation for client engagement are:

- Careful framing of the dialogue with specific questions to understand clients' strategy and planned actions to address sustainability risks.
- Open and honest dialogue with clients, providing the opportunity for questions regarding the bank's sustainability strategy and understanding of clients' progress toward sustainability.

- Utilisation of the findings of the PRB's portfolio impact analysis and the baseline of bank's sustainability and impact targets, including the bank's client engagement KPIs.

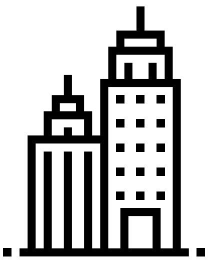
It is crucial to assess the baseline of clients on their sustainability journey, including data availability.

The aim of initial sustainability conversations is to build client relationships that enable clients to navigate in the dynamic and complex sustainability landscape and position the bank as a credible partner of choice in that relationship.

## 5.2 Needs assessment and awareness raising

Banks should proactively inform clients of their commitment to sustainability and responsible banking practices. To prepare for client discussions, banks should leverage insights from their portfolio impact analysis and the baseline data used to establish their sustainability and impact targets, in order to assess their clients' preparedness in the relevant impact area, taking into account the socio-economic context, including challenges related to sustainable development, the regulatory agenda, stakeholder demand etc.

As clients' sustainability performance and risk management affect banks directly, advocating for credible transition and action plans aligned with the banks' existing sustainability strategy ultimately benefits banks in the form of risk management. At the same time, clients need to be aware of the benefits of sustainable actions, in terms of reduced cost, generation of long-term value, potentially greater profitability and economic resilience.



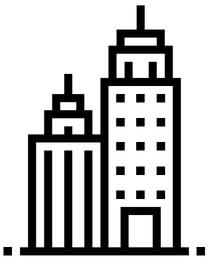
Elements to assess the clients' preparedness in the relevant impact area, include evidence of their own sustainability analysis and strategies, the availability of internal policies on relevant themes, corporate transition and action plans and the companies' respect/alignment with international standards (e.g. UNGP, HRDD, Paris Agreement). Assessing and understanding interlinkages between impact areas on a sectoral level is crucial in this phase. For example, banks can encourage clients to develop credible transition plans with decarbonisation pathways for climate mitigation and action plans on their environmental and social impacts on areas like nature, pollution, gender equality, decent work etc. For SME clients, the assessment phase will be less detailed and follow a more standardised process.

Elements to assess for retail customers are their financial health status (including cash flow, financial planning, resilience and financial and digital literacy levels), as well as their sustainability profile and potential associated financial, advisory and technical needs. This can include sustainability-linked products like energy efficiency or resilience measures for housing, products and services for specific vulnerable groups, financial advisory services for over-indebted individuals, or sustainability focused investments. Informing customers about subsidy programs e.g. on energy efficiency measures is one important element of that step.

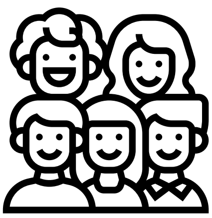
The aim of this phase in the cycle is threefold, to help banks (1) achieve a better understanding of their clients' performance, (2) determine the baseline and maturity level regarding sustainability performance, and (3) raise awareness about sustainability needs and ensure the benefits of sustainability actions are clear to clients.

## 5.3 Defining support plans

Following the needs assessment and awareness raising, banks should develop a client support plan and offer the proposal to their clients. Banks should identify ways in which they can support their clients via sustainable finance solutions and enabling economic activities that create shared prosperity for current and future generations. A support plan can be a standalone document or can be embedded within the bank's current client engagement or impact management strategy. Banks can tap into new commercial opportunities by analysing clients' transition plans, vulnerabilities and sustainability performance, as well as their respective financing and liquidity needs. Aligning banks' product offering with evolving taxonomies is beneficial for both parties. Setting up appropriate incentives for clients to improve their sustainability performance can distinguish banks from competitors and strengthen their relationship with clients.



Elements of support plans for corporate and business clients can include (1) educational background for transition plans and action plans (if not yet existent); (2) the banks assessment of clients existing transition plans; (3) interlinkages between areas of impact addressed within the support plan (e.g. integrating elements of social just transition into net-zero transition plans, responsible restructuring practices, respect of human and labour rights and international labour standards, leveraging circular economy as an enabler to address pollution and nature loss, etc.); (4) associated financing requirements, including agreed upon timelines to achieve targets and deliver on transition plans; and (5) a clear understanding of the way forward, including consequences in line with the bank's escalation process if timelines are not met (see Chapter 4.4), which builds on set conditions of financing.



Use of assessments can help pinpoint opportunities for retail customers and identify key points in time for intervention (e.g. when moving, buying a new boiler or car, when undertaking a home extension/renovation, etc.). For enhancing financial health, this may involve identifying training needs, access to pertinent products/services, and financial advisors, among other options. Developing personalised support plans can aim at improving financial health or segregating personal and business finances. The level of personalisation depends on bank size and digitalisation.

## 5.4 Implementing support plans by designing and offering products and services

Banks can develop new products and services to encourage and support their clients' sustainable business models, technologies, and operation. Developing new opportunities can also help banks meet their sustainable finance and capital mobilisation targets. It should be noted, however, that providing transition finance to high-emitting/polluting/nature-negative companies may result in a short-term lag on impact and even show a deterioration of impact metrics for a period. This should not be a rationale to not engage with these clients, but rather banks should consider complementary impact metrics which better show the magnitude of financing provided to transitioning clients and which provide credible forward-looking guidance on the level of impact being supported.

For corporate clients, the necessary financing structures will vary from client to client and capital requirements are important to consider. Risk analysis should help minimise the risk of greenwashing and develop sustainability-linked instruments for companies with poor social and environmental practices overall. For SME and retail customers, the support plans will usually not be individual support plans but capture the customer group, thus scalable solutions and standardised products and services can be offered. At the end of this phase, deals are signed.

## 5.5 Monitoring

Banks should review the progress achieved by clients against their sustainability strategy on a consistent basis, to ensure clients are making sufficient progress against predetermined timelines and expectations. Banks should set both quantitative and qualitative KPIs to monitor client progress, which should support monitoring of the banks' own sustainability and impact targets. Tracking of both practice and impact is needed, in terms of which clients have been engaged on which sustainability topics, what resulting products and services were developed and which changes in clients' activities were initiated. Monitoring contributes to the continuous improvement cycle and allows banks to assess and explore further business opportunities. If no progress is observed, banks can consider escalating action in line with their timebound client engagement strategy and the set conditions of financing, which may result in reduction in exposure or ultimate exit of the client relationship, if necessary.

# 6. Overview of client engagement efforts based on client types

Below is an overview of the described client engagement elements mapped according to different business activities and client types.

| Business activity | Client type | Categories | Engagement method | Client engagement cycle | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Ownership, regulatory status, maturity level | | Scene setting and opening dialogue | Needs assessment and awareness raising | Defining support plan | Implementing support plan by designing products and services | Monitoring |
| **Institutional banking** | **Corporate client** | | One to one engagement, Client workshops | Initiate by laying out the broader sustainability context of clients' sectors;<br>Regulated company: Positioning as the partner of choice with a credible sustainability pathway and as an early mover with advantages in regulatory compliance | Focus often on just one part of their activities;<br>Regulated company: Supporting the regulatory agenda and additional sustainability needs<br>Unregulated company: Focus on benefits of action and risks of non-action | Sometimes going more into the technicalities of the sustainability topic | Mobilising amounts of capital on a large scale, Individually structured financing solutions | Tracking against a set of KPIs and against the pre-defined timeline |
| | Corporate client, differentiated by maturity level on the respective impact topic | Unaware | | ● | ● | | | |
| | | Aware | | | ● | ● | | |
| | | Strategic/aligning and fully sustainable/aligned | | | | | ● | |
| | | Escalation process / managed phaseout | | | | ● | ● | ● |
| | **Business client / SME** | | One to many: centralised communication and education campaigns in branches and digitally | | Focus often on all of their activities | Higher-level treatment of the sustainability topic | Small to medium financial volumes of deals, standardised offerings for small businesses | |
| **Consumer banking** | **Retail customer** | | Centralised communication and education campaigns in branches and digitally | | | | Standardised offerings for retail customers | |

● Focus of the engagement

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UN environment programme

finance initiative

UNEP Finance Initiative brings together a large network of banks, insurers and investors that collectively catalyses action across the financial system to deliver more sustainable global economies. For more than 30 years the initiative has been connecting the UN with financial institutions from around the world to shape the sustainable finance agenda. It has established the world's foremost sustainability frameworks that help the finance industry address global environmental, social and governance (ESG) challenges. Convened by a Geneva, Switzerland-based secretariat, more than 500 banks and insurers with assets exceeding USD 100 trillion work together to facilitate the implementation of UNEP FI's Principles for Responsible Banking and Principles for Sustainable Insurance. Financial institutions work with UNEP FI on a voluntary basis and the initiative helps them to apply the industry frameworks and develop practical guidance and tools to position their businesses for the transition to a sustainable and inclusive economy.

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