

ESG under the bonnet

Environment Analyst lifts the lid on what good ESG practice looks like on the ground with perspectives from the client investor, the ESG risk data provider and the consultant; and how it is becoming normalised in everyday business

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A company or even an industry sector may have signed up to a set of environmental, social and governance (ESG) policies but what is happening at the grassroots? If ESG is in place, why are there more frequent factory fires or pollution incidents? For a growing number of financial institutions and their advisers, digging deeper and adding context to a company's operations is an essential part of how they monitor customers and their sectors and supply chains.



"We consider relevant issues using a screening tool," says Ben Walker, head of ESG Analytics and Advisory for the **ANZ Banking Group** in Australia. "Prior to entering into a relationship with any large business customer, relationship managers are expected to examine a broad range of social and environmental issues."

This it seems extends well beyond standard box-ticking compliance or the results of a facility audit. While a customer may have recognised, publicly declared ESG-related policies in place, the bank still keeps a weather eye on a whole range of incidents that may have an impact on financial performance, as well as the reputation of the bank, says Walker.

"We monitor the social and environmental risks of our business customers through a monthly 'Reputation Risk Radar' with the help of **InvestAssure**. Its **NIMBUS** tool scans the internet for news reports, allegations and potential 'controversies' across a range of business topics to identify risk alerts which may affect ANZ's business."

With the help of NIMBUS, InvestAssure - a responsible investment and ESG risk management specialist based near Oxford in the UK - provides the bank with a targeted service to monitor its customer base. It is designed to complement corporate policies by providing additional comfort and context on what is happening on the ground locally. If a mining project is starting to make the local news because of a land rights dispute or there has been a series of fires or pollution incidents at a local factory then this should be picked up by the NIMBUS tool which can be set up to meet the needs of a particular client. InvestAssure has other high-profile clients on its list in addition to ANZ.

"At the very least we can help banks and other interested parties ask the right questions," says Paul Wenman, the CEO and founder of InvestAssure. "While ESG is moving towards a more

standardised approach, this is what we might call a bit of 'ground truthing' to supplement that standardisation."

The NIMBUS database contains information on more than 12,000 companies but the trick, says Wenman, is to classify and organise the data in a way that is meaningful to the investment and lending process. This can take the form of regular monitoring of up to several thousand firms, one-off look-ups to support due diligence and/or reports to show sector and market trends over different periods of time. Also if a company has a track record of community conflict, product failures or EHS incidents, how has it dealt with this and what's the current performance like?

But the ultimate value of NIMBUS, suggests Wenman, is the potential to identify where ESG policies need to be complemented with improved governance operational controls to drive better performance. "We look deeper than a standard subscription to core news services would offer, by using our own web scanning system. We often use a combination of automated and manual scanning, together with local research, to maximise return on our effort. Certainly, for the financial sector, which doesn't generally run ESG audit programmes, this delivers better bang for your bucks in terms of risk reduction. It's about monitoring the reality behind the perception."

James Pearson, CEO of [Pacific Risk Advisors](#) (PRA), agrees. "When undertaking due diligence on potential acquisitions or private equity investments, we find it useful to do a quick company check using the NIMBUS online database," he says. "This can provide complimentary assurance that there are no skeletons in the cupboard. Conversely, identification of past incidents or allegations can direct us towards follow-up checks and investigations, for example during audits."

PRA was founded in 2005 by Pearson. The firm now has a specialist team based in Hong Kong and Bangkok providing ESG and sustainability risk consultancy for the global investment and business community. It claims to offer "a complete investment lifecycle range of ESG advisory services" from initial review, data capture services, through to planning and deploying an effective ESG monitoring and reporting framework.

Like Ben Walker, Pearson is able to use NIMBUS as an ESG risk tool on behalf of clients, flagging up any risk alerts and monitoring their seriousness over an extended period of time. He says: "The NIMBUS monitoring service helps us keep tabs on any allegations or incidents which warrant quick attention, either through operational remediation or stakeholder engagement."

For ANZ, getting regular updates from InvestAssure helps to inform the dialogue between relationship managers and their customers. "This feeds into our monthly process," adds Walker "and alerts us to notable incidents." In short: it's proactive risk management that takes a look at ESG under the bonnet, helping to keep policies and programmes on the right road.

To continue the debate on how consultancy services and strategies are being honed in response to ESG and sustainability trends join us at the [Environment Analyst Global Business Summit](#) (June 2021, online).