

Popular Science Summary

Various stakeholders are increasingly interested in ensuring sustainable economic development, including sustainable finance, which is linked to environmental, social and governance issues (ESG). As the financial industry is expected to increasingly support sustainable development, our goal is to evaluate how the European financial sector fulfils ESG reporting requirements and which actual measures the financial sector has undertaken and may undertake to support sustainable economic development. In other words, we ask, do deeds follow words?

We focus on banks and insurers because the investment sector (especially socially responsible investment) has already been extensively explored in previous studies. We plan to explore both pro-ESG activities that are oriented towards small-scale changes and help improve entity's public image (e.g. avoiding printing documents, planting trees) and pro-ESG activities on a business level that have material impact on various industries and the economy. This actual impact means making decisions on the financing and pricing of credit or insurance contracts for companies. As recent data (May 2021) show, the European banking sector has a long way to go to reach a balance between "green" and "brown" assets. Currently, "green" assets account for only 8% of European banks' balance sheets, and some bank credits (especially granted to high-carbon enterprises) expose them to climate transition risk.

Studies conducted so far show varied results related to the impact of ESG factors on the performance of various entities; however, very few studies have evaluated banks and insurers. We also expect different behaviours between banks and insurers, which are parent companies in their home countries and their subsidiaries in host countries, especially outside the EU. This aspect is especially important for emerging markets.

Many commercial firms offer ESG ratings, but they are criticised due to their divergence. As a result, we plan to develop a novel measure of ESG involvement based on an in-depth analysis of reports, including text-mining techniques.

In this project, we will combine data from different sources, including existing databases, financial and non-financial documents, research team requests and queries, and we will apply many estimation techniques to test our hypotheses.

We hope our research results will help financial institutions improve their engagement in pro-ESG activities, which will limit the negative impact of climate change and ensure more sustainable economic development.