



TOPICS:

ESG risk

SOURCE

Bank of Italy

Bankit: Action Plans on Integrating Climate and Environmental Risks into LSI Business Processes

- This paper presents an analysis by the Banca d'Italia (Bankit) **on how Less Significant Institutions (LSIs) are aligning with supervisory expectations regarding climate and environmental (C&E) risk integration.** The 2024 supervisory dialogue focused on monitoring the execution of **2023–2025 action plans.** By early 2025, 27% of planned interventions were completed, 59% were underway on schedule, and 14% were delayed.
- Key findings highlight that 90% of LSIs have attributed C&E responsibilities to governance bodies and initiated organizational changes and training. However, **integration into remuneration policies and reporting systems remains incomplete.** In terms of strategy, the majority have started aligning business models with ESG principles, including expanding green product offerings and defining ESG-linked KPIs.
- **Data governance and IT adaptation efforts are hindered** by reliance on external data providers and limited internal verification systems.

Some LSIs have implemented temporary control mechanisms through risk management and audit functions.

- In risk management, progress includes **incorporating ESG risks into RAF, ICAAP, and ILAAP, though challenges remain, particularly in credit risk evaluation.** Banks are adopting tools like **scenario analyses and sectoral mappings** to assess physical and transition risks. Materiality assessments are ongoing, with most LSIs planning to complete them by 2025.
- **Best practices** include **structured governance models, detailed action plans, and the establishment of specialized committees.** LSIs are also **implementing innovative financial products,** such as loans with interest rate reductions upon meeting ESG targets and insurance against climate-related events. Many are enhancing internal controls and aligning remuneration with ESG performance metrics.

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