Q&A

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Working every day in the interest of our customers and society

What are the main actions that Credit Agricole has launched to support the green transition following the COP-21 Paris Treaty? What are the main challenges faced by banks in this regard?

As a major player in the economy, Credit Agricole has adopted a Group climate strategy to increase our financings and investments for the climate and low carbon transition and make green finance a key source of growth and innovation. That strategy was strengthened in December 2021 with the publication of ten new commitments by 2025. Central to these commitments is our objective to contribute to carbon neutrality by 2050 on our scope 1, 2 and 3 emissions. This means we want to substantially increase our financing and investments in the transition together with all our clients, across all our sectors. To give you just a few examples, we already finance one out of three renewable energy projects in France; we aim at doubling the production capacity of renewable energy facilities financed by Credit Agricole Insurance to cover the average energy consumption of four million homes.

Furthermore, we already apply ESG criteria to 100% of actively managed open-ended funds of our asset manager Amundi, and we will invest an additional EUR 20 bn in sustainable funds (so-called "article 9 products") by 2025. Finally, we also intend to offer all our retail clients a platform to diagnose the energy profile of their accommodation and provide advice and concrete solutions to improve their energy performance.

Dialogue with our clients will be central to achieving these objectives. One of the tools we have developed in that respect is a "climate transition score", which can provide a dynamic view of a company's performance to date towards climate transition, its decarbonation speed, and its level of commitment. We are going to publicly share the macro-structure and modus operandi of that scoring tool so that it is available to other financial players in open source and can help a wider range of economic players.

Equally important is our capacity to act in a decentralised way, through our regional banks network. Solutions to address climate change will be developed by local companies, which themselves create a positive dynamic in the regional ecosystem. Our cooperative model, with its participatory governance, and our financial strength, allow us to roll out our climate transition strategy and work with local agents to the benefit of a sustainable regional development for all.

Naturally, we have been facing multiple challenges, chief amongst them being data quality and availability. Just as any other financial institutions, Credit Agricole depends on data from its clients and despite the improvements brought by the Non-Financial Reporting Directive (NFRD), the quality and the accessibility of our corporate clients' non-financial data have been lagging behind. We therefore hope that the Corporate Sustainability Reporting Directive (CSRD) will address crucial data issues.

What are the issues raised by the current inconsistency of Environmental, Social and Governance (ESG) reporting standards at the global level?

ESG reporting standards can be a very efficient way of supporting our economies' transition. The inconsistency of current ESG standards at global level leads to distortions of information, lack of comparability, greenwashing, less efficient asset allocation and, ultimately, lower ESG transition. It also entails a level playing field issue as multinational companies may face different and potentially divergent ESG reporting obligations in multiple jurisdictions. As far as EU companies are concerned, data needs have been increasing substantially to meet new requirements, including data from third-country investees. We therefore welcome that the European Financial Reporting Advisory Group (EFRAG) seeks to coordinate, in a "co-constructive" approach with the newly founded International Sustainability Standard Board (ISSB) and we call for EFRAG to be properly involved in the process of developing the future International Sustainability Standards (ISS).

Transparency alone is, however, unlikely to turn the market around with the necessary speed. Pro-active government action with clear sectoral transition paths is needed to reach net zero by 2050. We welcome the European Green Deal and Next Generation EU initiatives to fund the green transition. These investments are meant to be followed by even vaster amounts from the private sector as the ESG transition is also an important business opportunity. We are ready to finance it but we need to see many more public and private investment projects and a better recognition of transition in the future extended EU taxonomy.

What would be a realistic ambition for the financial sector regarding emerging ESG challenges (biodiversity, circular economy, social, etc.)?

It is very clear that environmental transition and social development go hand in hand. The former cannot succeed without acceptance from the latter. As a mutual bank, our usefulness to society has always been paramount and working for a just transition has been a natural development. Concretely, we recently made several commitments to strengthen social cohesion and inclusion, such as providing financing to the weakest local economies to support local employment, socio-economic integration and access to health care.

We also invest in the circular economy. Our leasing subsidiary, Credit Agricole Leasing and factoring, recently acquired Olinn, a company specialized in reconditioning and recycling of desktops, laptops, network and other equipment.

How are banks managing sustainability risks? What are the lessons that can be drawn from the recent EU stress-tests in this regard?

Credit Agricole, thanks to its cooperative roots and its mutual business model based on usefulness, as well as its commitments in favour of the territories and social inclusion, has always been committed to sustainability: mutual aid, responsibility, equity, solidarity, long-term horizon, and governance based on proximity.

Moreover, Crédit Agricole has integrated ESG risks consideration into its business strategies and processes and its internal governance systems. Supervisors encourage also banks to progress in the risk assessment and management, through stress tests for example. The one that is currently performed by ECB will measure banks' vulnerabilities, especially through credit and market risks, such risks being assess through the existing risk factors.

It raises again the question of methods and data, the qualitative approach for both clients and transaction being already in place. Credit Agricole also took part in a climate pilot exercise of the French supervisor (ACPR): climate-related risks' impacts remained contained and manageable for the Group and climate levers were identified in addition to management decisions to mitigate the cost of these climate risks.

The ECB has published a guide describing thirteen expectations about climate-related and environmental risk management. Credit Agricole appears to be one of the main advanced bank under the SSM perimeter, with a detailed action plan to carry out the improvement of its risk framework (The state of climate and environmental risk management in the banking sector, ECB report, November 2021).

How are banks managing sustainability risks and what is the contribution of the bank regulatory framework to addressing these risks?

The current EU bank regulatory framework is adequate as it focuses on the "transparency" of financial players' exposures to sustainability risks. Credit Agricole has a permanent dialogue with its supervisors, just as we keep a permanent dialogue with our clients, because we have common goals concerning sustainability, in the interest of the whole society. Nevertheless, one should avoid bureaucracy and excessively burdensome procedures.

As stated by the ECB, while ESG risks drive credit, market or operational risks, they are not a new risk category and their assessment must be risk-based. Of course, a new approach to assessing and managing ESG risks is necessary as historical data, one-year horizons and back-testing requirements are not helpful here. Banks have therefore been developing their own methodologies under the guidance of the ECB. As far as we are concerned, as a cooperative bank, we have a culture of long-term vision and a limited appetite for risk which explain why our exposure to climate risks is limited.

To address data and modelling issues, we follow a step-by-step approach including different tools such as assessment of weaknesses against transition and physical risks with detailed cartographies; medium to long-term projections through dynamic stress tests; building of robust data during loan origination process, external audited data collection; and counterparty analyses of ESG sensitivities.