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ESG EVALUATION: HOW CAN WE CONTRIBUTE TO ACHIEVING THE SDGS?

INDUSTRY VIEW

ESG (Environmental, Social, and Governance) has been a hot topic for private and public credit insurers. Still, in the end, it is "just" a rating system derived from Corporate Social Responsibility (CSR) reporting, and in practice, it is difficult to assess what changes it has brought. Shouldn't credit insurers shift their focus towards improving their contribution to the United Nations Economic Development Growth (SDGs*)? How can they contribute, and how can digitalization help them increase their impact?

The ESG rating challenge

There are many valuable global ESG rating initiatives from various players, which is clearly a reason to be optimistic. Yet, we are no longer naive. There is no equivalent to IFRS** regarding ESG; rating providers may be tempted to look kindly upon those who pay them. We all know what the consequence of this is: greenwashing!

It would be easy to blame rating providers, but it is obvious that they lack guidance. There are no standards governing the evaluation criteria or what should be evaluated. As a result, and at best, corporate entities approach ESG as a compliance issue. At worst, it is used to gain customers and investments without truly intending to have an impact.

ESG rating approaches may be based on company, product, or transaction assessments, all of which are valid and valuable. However, they are rarely combined because such a comprehensive approach would be very complex. Unfortunately, it is probably the only way to avoid one company's attempt to improve one aspect of the process having a negative impact on another. Developing standards for each dimension could certainly help everybody cope with this complexity.

Through its Short-, Medium-, and Long-Term Credit Insurance and Surety offers, the industry has a broad vision/understanding and control of project finance and trade transactions in the world.

So, it could be more prominent in promoting virtuous companies and trades.

Incentivize good ratings

In addition to their involvement in renewables, social infrastructure, and waste and water treatment projects, credit insurers have quite a unique view of supply chains via their short-term products.

They could lower premium rates for such projects and make sure that the ESG analysis and monitoring are as comprehensive as possible since they are involved in the whole lifecycle of these assets from pre-shipment to decommissioning as part of their product portfolio. By sharing data, they can provide a 360° view, which is key to success in this area.

More practically, it is through operational processes that this general green movement must be implemented. It will require the following:

- Automation of processes and standardized use of project/ transaction assessment criteria (in addition to the usual risk assessment),
- Automated monitoring of the criteria used at initial underwriting phase for each project during the whole life of the contract.

However, there is a cost related to the ESG and to consider discounting premium for suitable projects, insurers must find ways to absorb them. Digital data and standardization can certainly help in achieving this, provided that:

- They provide secure recording and tracking of all actions during the whole life of the covered/ insured project or transaction,
- They render these complex new processes cost-effective.

Promote impact

Beyond a static picture, we must also assess the objectives the insured set for themselves and their progress over time.

Thanks to their buyer-centric underwriting approach, credit insurers have the means to develop business intelligence on companies' supply strategies and have the potential to contribute to a proper assessment of the efforts a company makes to render its business more sustainable. Progress could (and should) be the most important criterion rather than evaluating the nature of an activity. Given the current context, it is obvious that some are not green by nature but essential to communities, and it would be unfair to rate them solely on their carbon footprint.

We must also challenge the status quo as an industry and an ecosystem. Maintaining a high level of collaboration between ECAs during troubled geopolitical times is difficult. It is obviously more challenging to improve further collaboration with MDBs. Yet it is a must if our common goal is to enable project materialization and end-to-end monitoring. We must go out of our comfort zone. Technology is available to allow information sharing, but nothing will happen without business and legal alignment.

In conclusion, we all saw Alok Sharma crying in his concluding remarks of COP 26. It was a sad moment, and it occurred before the war in Ukraine and the energy crisis. From an SDG point of view, the situation has worsened.

However, as Bob Marley said, we should get up, stand-up, and not give up the fight. One thing we have too little explored is how to think out of the box. To help us do so, we should be more diverse and consider hiring more people with experience outside our industry.

Shadow boards have proven to be efficient in very traditional industries, such as the luxury industry, not because they were hidden (they were not) but because they assigned tasks that had not been solved by experts for decades to people with a fresh perspective on the matter. Trade finance and infrastructure finance gaps could certainly fall into this category.

****MBD: Mutlilateral Development Bank*

About the Authors

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Thomas came aboard in 2018 to develop our surety bonding offer. He's now also heading the Innovation LAB developing outside-the-box solutions to tackle the industry pain points, and augmenting Tinubu's competence in advanced technologies (blockchain, AI, quantum computing).

He has built trade finance and balance sheet management expertise as an advisor for financial institutions at CSC Peat Marwick and led the European business analysis team dedicated to surety bonding at Atradius.

Thomas holds a master's degree from Grenoble Ecole de Management. He also represents Tinubu in various professional associations (e.g., Surety and Fidelity Association of America, International Trade and Forfaiting Association) and frequently publishes articles in specialized magazines and newspapers.

Marc MEYER
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Marc joined Tinubu in 2005. With more than 30 years of experience in the Trade Credit Insurance industry, he plays a significant role in developing the international portfolio.

He started his career in 1989 as a credit analyst at NatWest. In 1993, he joined Euler as a senior Risk Underwriter. He then participated in and led projects which resulted in the acquisition and opening of 14 subsidiaries in 13 countries (Europe, South America, and Asia) and took part in the merger with Hermes. He holds a master's degree in Public & International Laws and Policies from Poitiers University and a diploma in public service from Sciences Po Paris.

About Tinubu

Tinubu is the business facilitator and exchange enabler that delivers fluidity and simplicity to the insurance industry by using the strength of collective performance.

Our company is an alliance of technology software and insurance expertise offering the best combination to its clients. It covers the entire value chain of credit insurance & surety with one end-to-end platform, connecting every part of your business with one digital highway.

Established in 2000 and headquartered in Paris, France, Tinubu is an independent software provider and employs 170 people, located in Paris, London, New York, Orlando, Singapore, and Montreal. Its clients represent 30 of the top 60 Credit & Surety underwriters worldwide.

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