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ESG Viewpoint: ING

RepRisk interviews Tessa Maksimovic, Advisor Environmental and Social Risk at ING.

The ING Group is a Dutch multinational banking and financial services corporation headquartered in Amsterdam. ING offers retail and wholesale banking services to customers in over 40 countries through its operating company ING Bank and has more than 51,000 employees. ING Group shares are included in the FTSE4Good Index and in the Dow Jones Sustainability Index.

Tessa Maksimovic joined ING's Environmental and Social Risk team in 2013 and is responsible for the assessment of environmental and social risks and impacts related to commercial banking transactions. Her responsibility also encompasses special projects such as contributing to the Equator Principles Loan Documentation Guidance (Update EPIII) and participating in the OECD Advisory Group on Responsible Business Conduct. Prior to this, Tessa held positions at ING as Advisor Non Financial Risk and as Legal Counsel.

1. RepRisk: Could you please provide some insight into your specific role at ING and explain the work that your department does?

Tessa Maksimovic: The Environmental and Social Risk Team is part of the credit risk function within ING. The team has a global role and is responsible for the Environmental & Social Risk Policy Framework, as well as articulating the risk appetite for ING engagements worldwide. Being part of the internal credit risk department allows us to work independently from the front office teams, who are involved in client relationship management and deal origination. Besides policy responsibility, our team is involved in transaction advisory for all high-risk engagements within ING. The governance is decided by our internal assessment tools that analyze both our corporate clients and the specific transaction at hand. Our due diligence and assessment of environmental and social risks and impacts is based on several sources, of which RepRisk is an important one.

I am one of the Environmental & Social Risk advisors on the team, and advise on various challenging projects in several parts of the world. Our team focuses on the most sensitive transactions and, where possible, tries to make a positive change to our client's approach to environmental and social topics. We also visit the projects we finance, and it was only last week that I joined a site visit of a project in Latin America. We visited several critical points within the influence area of the project and got a chance to meet with local communities living in the vicinity of the project. These opportunities really allow you to see and understand how environmental and social aspects are managed in practice.

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2. RR: ING has established a dedicated Environmental & Social Risk (ESR) Policy Framework. Can you walk us through the key steps that you followed to develop this framework? And how do you think that integrating ESG criteria creates value, both for ING and for your clients?

TM: The ESR Policy Framework is built around ING's key values of environmental compliance and our commitment to human rights. The Framework distinguishes between the so called "Exclusion policies," "Sector Sensitive policies," and the Equator Principles. The assessment of our clients is based on tools that are incorporated into our mainstream systems. This methodology allows ING to have an integral approach to managing all risks, including environmental and social risks. Since the initial introduction of the tools, ING has assessed approx. 8,000 corporate clients. Subsequently, every client that is looking for financing will need to undergo a second assessment in order to understand the risks and impacts associated with that specific transaction.

For transactions that entail a certain level of risk, ING will, wherever feasible, engage with the client and agree on a mitigation plan, or remediation plan. Usually, these commitments are covenanted in the loan documentation. In our view, environmental and social risks are strongly related to an entity's overall risk profile. Therefore, having these commitments is very important to manage those risks, as they could impair a company's obligations under loan documentation such as repayment of a loan. ING's approach and governance ensures that risks associated with our clients' business are in line with ING's risk appetite.

3. RR: ING has been a RepRisk client since 2016. How do you use RepRisk in your day-to-day business?

TM: ING primarily uses the RepRisk Platform to obtain information regarding our clients. Early in the process of engaging with new entities, RepRisk helps us to understand potential issues associated with these prospects. Further in the process, the RepRisk Platform is used to monitor issues arising during the course of the relationship.

RepRisk helps ING to identify key issues, risks, and impacts facing our clients. The RepRisk Platform assists the ESR team in the assessment of key clients and the projects that we finance, allowing ING to manage any environmental and social risk that we may encounter. Basically, for every high-risk entity or engagement, RepRisk is consulted before the ESR team issues any advice. Since RepRisk uses a very extensive source list, the Platform provides a very comprehensive view on our clients' (and prospects') ESG and reputational issues.

The ESR team further uses RepRisk in our ongoing responsibility of policy drafting. The Platform gives insights into trends and developments, including country and sector information that we use when introducing new policies or updating ING's existing risk framework. The functionality to filter the content of the information in the RepRisk Platform is very useful as we can limit the number of findings to the specific topic that is of interest.

4. RR: In February 2017, the Dutch Parliament adopted a bill introducing a duty of care to prevent child labor. In your view, will compulsory due diligence on ESG issues improve results on the ground?

TM: ING supports every development to avoid violation of human rights; protection of children and preventing child labor is a key priority. In our view, any obligation or commitment, whether it stems from formal legislation or any other type of soft law, will help to prevent or avoid human rights violations on the ground. Legislation, though, is the strongest tool to force and enforce appropriate investigation and analyses of affected communities and other stakeholders potentially affected by a project.

ING, together with UNICEF, was part of a pilot project to develop the "Children's Rights and Business Principles." Further, ING has been involved in the Equator Principles Association since its initial introduction in 2010. As the chair of the association from 2012 to 2014, ING played an important role in the update of the Equator Principles in 2014.

With the update, human rights due diligence was introduced and is now an integral part of the Equator Principles assessment, and as such applied in project finance. ING's commitment to the Equator Principles safeguards a high level of assessment and proper mitigation plan when any human right is impacted. Although a legal obligation will help in the prevention of child labor, safeguarding children's rights should in any case be an essential part of a company's policy commitment, especially when doing business in a high-risk environment.

5. RR: What do you see as the upcoming trends or emerging issues from an environmental and social risk perspective? And any new developments in this area for ING?

TM: With the introduction of the United Nations Guiding Principles on Business and Human Rights a few years ago and the update of the OECD Guidelines for Multinational Enterprises, more and more countries have started to develop legislation and regulations to cover for both social and environmental matters. After the UK Modern Slavery Act came into force, many other countries followed. In terms of human rights, the Dutch government chose to work closely with several sensitive industries simultaneously and establish covenants to embed human rights more thoroughly into companies' activities and operations. Hence, there is a clear trend to incorporate social and environmental considerations into legal and regulatory frameworks, including close monitoring by governmental bodies.

Further, we notice a greater demand for transparency and disclosure on a variety of topics. With the transition to cleaner energy and lower emissions, there is also a call to be more open on our investments. Banks have an important role in this transition, and ING is actively supporting the market for renewables. In addition, ING is following the Financial Stability Board's Task Force on Climate-related Financial Disclosures. Transparency on our investments in the energy sector, as well as how banks, and the financial industry as a whole, incorporate and manage the risks that we encounter on a regular basis remains very important.

In the coming years, also in light of the new EU Directive on disclosure of non-financial and diversity information, we will need to balance appropriate disclosure while taking into account privacy obligations and competition law requirements.