



# Fifth Third Bank: Excelling at Climate Risk Management

Winner of Celent Model  
Risk Manager 2023 Award  
for Responding to  
Emerging Risks

## Forward

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From early 2021, **OakNorth Credit Intelligence** (ONci) has partnered with Fifth Third, one of the largest consumer banks in the Midwestern United States, to support the bank in assessing and analyzing its loan book. This has been done via the **ON Credit Intelligence Suite**, which is made up of three core products, **ON Scenario Analysis**, **ON Monitoring**, and **ON Climate**.

Fifth Third recently deployed ON Climate, which provides lenders the ability to assess climate transition risk on their loan book. Climate and credit risk teams get access to immediate and actionable intelligence on their C&I portfolio down to the individual borrower level, enabling lenders to:

- Calculate financed emissions across their entire commercial loan book without wasting time in collecting emission data from their customers;
- Mitigate regulatory risk by identifying climate risk in their portfolio early, allowing lenders to create effective climate transition risk strategies;
- Incorporate climate risk measurement into their regular portfolio management and underwriting process;
- Increase customer retention and wallet share by giving their front line the information they need to facilitate meaningful conversation with customers on climate risk.

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“We are partnering with ONci Credit Intelligence to help develop our climate scenario analysis capability, quantify our climate risk in commercial lending, guide future conversations with our commercial borrowers, and enable us to continue our climate leadership through disclosure.”



**MIKE FAILLO**  
**CHIEF SUSTAINABILITY OFFICER**  
**FIFTH THIRD BANK**

In recognition of the successful deployment of ON Climate, Fifth Third, has been named a ‘Celent Model Bank’ for ‘ESG Innovation’. To explore this further, Celent, the leading research and advisory firm focused on technology for financial institutions globally and part of the Oliver Wyman Group created a report, detailing how Fifth Third has implemented ON Climate to achieve several key objectives:

- Develop its climate scenario analysis capabilities;
- Quantify climate risk in its commercial loan portfolio beyond nine-quarter stress test;
- Guide future conversations with commercial borrowers;
- Support the bank’s climate leadership through disclosure;
- Be best prepared for any climate-related regulation.

**ONci congratulates Fifth Third for their innovation and industry leadership in climate risk management. We are delighted to share Celent’s full award write up, here forward.**



# Climate change presents both risks and opportunities

BY HUGH SHANNON, HEAD OF SALES & CUSTOMER SUCCESS AT ONCI

In addition to Celent's findings, Hugh Shannon, Head of Sales & Customer Success at ONci, shares his latest insights around how and why climate change presents both risks and opportunities for the commercial banking community. In addition, he also touches on why banks need to take a new approach to scenario analysis and evolve their existing risk and credit processes, to ensure they're confident in their ability to lend and support borrowers through economic cycles.

While climate change creates many unknowns and can impact the creditworthiness of even the most profitable businesses, it can also give banks an opportunity to support sectors and businesses in reducing their carbon emissions and transitioning to the green economy.

For example, the California Air Resources Board last year announced an aggressive plan to mandate a steady increase in the sale of electric and zero-emissions vehicles, banning new gasoline-powered cars by 2035. As a result of this, it's very possible that businesses such as delivery companies might be considering how they can shift their fleets to EVs (electric vehicles) over the next few years. Not only would this reduce the carbon footprint of these businesses, which would, in turn, reduce the bank's scope 3 emissions, but it could also help the business attract new customers who are seeking a more environmentally friendly alternative.

Another example is in the restaurant industry where approximately 9.7 million Americans identify as vegan — a significant jump from just a decade ago. As a result, most fast-food restaurants now offer vegan-friendly products from companies such as Beyond Meat.

These are just two examples, but both would require significant investment from the businesses — an investment that could be supported by a loan from a bank.

Data and modern technology remain pivotal in helping banks and businesses adapt to an ever-changing world. Due to the frequency of extreme weather events and the speed at which technology is evolving, climate analysis requires ongoing data collection and insight.

However, many banks still rely too heavily on manual data gathering, basic Excel spreadsheets, and their portfolio managers' intuitions. Longer term, they will need to develop clearer data strategies and evolve current data capture and aggregation into more sophisticated, automated systems.

This will help reduce the time spent reviewing data and help relationship managers and credit analysts identify risk factors much earlier.

For example, a borrower may appear to be in good financial health based on previously collected data, but different scenarios — climate change, geopolitical tensions, rising inflation, supply chain issues, etc. — could create additional stress or increase the risk of default. Technology can provide early warning indicators in situations such as these, enabling the bank to work with the borrower to agree on the best way forward and hopefully minimize or completely avoid a credit loss.

Many banks are exploring new and innovative ways to obtain more data from customers — some through working with third-party data providers and partners such as ONci, and others through trying to gather more data directly from customers.

For example, during one of ONci's recent Climate Consortiums - which sees a group of innovative, climate-forward commercial lenders come together on a regular basis - one member shared how they have created a rigorous climate questionnaire that is shared with borrowers at the time of initial underwriting/onboarding, and again at the annual review. The questionnaire helps the bank assign a climate risk score to the borrower — for those that score on the higher end, the bank is monitoring them more closely and working with them to put a climate transition plan in place if they don't already have one.

As the world adjusts to new challenges such as climate change, banks will need to take a new approach to scenario analysis and evolve their existing risk and credit processes. They will also need to invest significant time and resource into building climate confident teams and first lines who are equipped to have these conversations with borrowers, identifying both the risks and opportunities.



We have built our reputation on being a trusted partner to the businesses we lend to. In order to continue being a trusted partner, we need to help them understand where their climate vulnerabilities are and what they can do about it. The ON Climate solution is helping us do that.”

NEIL EVANS, HEAD OF CREDIT RISK AT OAKNORTH BANK

## Challenges and objectives for OakNorth Bank

OakNorth Bank wanted to understand the most material climate-specific risks to its borrowers and evaluate the possible impact this could have on credit risk in its loan book. It also wanted to be able to report on its findings and start to identify new opportunities to support decarbonization in the economy.

## How deploying ON Climate helped

In 2021, OakNorth Bank leveraged the ON Climate solution to conduct a granular-level scenario analysis that helped it determine the possible impact of climate transition risks in its loan book. Forward-looking scenarios were overlaid on borrowers' current performance/base case forecasts to generate a forecasted performance for each borrower, which considers constantly evolving impact metrics, like carbon tax, over the short term (2025) to target policy year (2050).

OakNorth Bank concluded that while climate transition risk will have an impact on a number of its borrowers, only 0.15% of its total book would be directly impacted under the transitional risk assessment, and they can survive across the various scenarios with minimal impact compared to base case.

The analysis and conclusions were detailed in OakNorth Bank's ICAAP submission and the ESG report within its 2021 Annual Results and received very positive feedback from various stakeholders, who said it was one of the most detailed climate change analyses they had seen from a bank to date.

## Future plans

Based on the findings from the analysis, OakNorth Bank will continue to assess impact from transition risk scenarios derived from the ON Climate solution across all its borrowers, including those with minimal/residual impact. It will continue to expand on this analysis, integrating it alongside its full stress-testing framework and building out further stress scenarios including coverage of lower risk segments.

Having identified its risk and determined where it wants to play for opportunity, it is now standing up an origination team dedicated to sourcing green businesses that may need funding support, as well as brown businesses which may need funding support to transition their business model.





## Set the standard

### Leading the industry in commercial credit analysis

The ON Climate Consortium is a group of innovative, climate-forward institutions driving commercial lending approach to climate risk and opportunity. Participants include 60 industry leaders from 30 commercial banks, representing \$14 trillion in combined assets - an incredibly strong representation of the US banking community.

ONci's experienced team of credit analysts and data science experts continue to evolve and refine our tools, models, data sets, and climate analysis, and work closely with leading US banks, such as Capital One, PNC, M&T Bank, and Fifth Third to make sure our solutions meet lender's needs.

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Participating commercial banks

\$14T

in combined assets

### PARTICIPANTS

AMALGAMATED BANK

ASSOCIATED BANK

AVIDIA BANK

BANK OF AMERICA

BMO

BOK FINANCIAL

BUSEY

CADENCE BANK

CAPITAL ONE

CELTIC BANK

CIBC

CITIZENS BANK

CITY NATIONAL BANK

FIFTH THIRD BANK

FNBO

FORBRIGHT

FROST

HUNTINGTON

JPMORGAN CHASE & CO.

KEYBANK

M&T

OAKNORTH BANK

PACIFIC PREMIER BANK

PACIFIC WESTERN BANK

OLD NATIONAL

PNC

REGIONS

SMBC

SOUTH STATE BANK

UNITED BANK

VALLEY

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▶ For more information regarding the ON Climate Consortium, contact ONci.





**OakNorth**  
CREDIT INTELLIGENCE