Supporting the transition to net zero for business in Europe

Why banks are so well positioned to help their business customers understand and provide services to support emerging sustainability opportunities

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When it comes to sustainability, the European business community is preparing for significant change.

Across the region, there's a clear consensus that environmental risks and opportunities ought to be factored into the valuation of any company. Hence, the emergence of the European Union's Corporate Sustainability Reporting Directive (CSRD), and the European Sustainability Reporting Standards (ESRS).

Over the coming few years, these requirements will put the subject of sustainability reporting firmly on the radar of most European companies, and international companies with even modestly sized European operations.

As the business community makes its preparations, and sustainability considerations take on real strategic significance for more companies, Visa believes the payment and banking sectors have a valuable role to play. That's because payment and banking data can provide a direct line-of-sight to all a company's spending – and, by implication, all its scope 3 emissions.

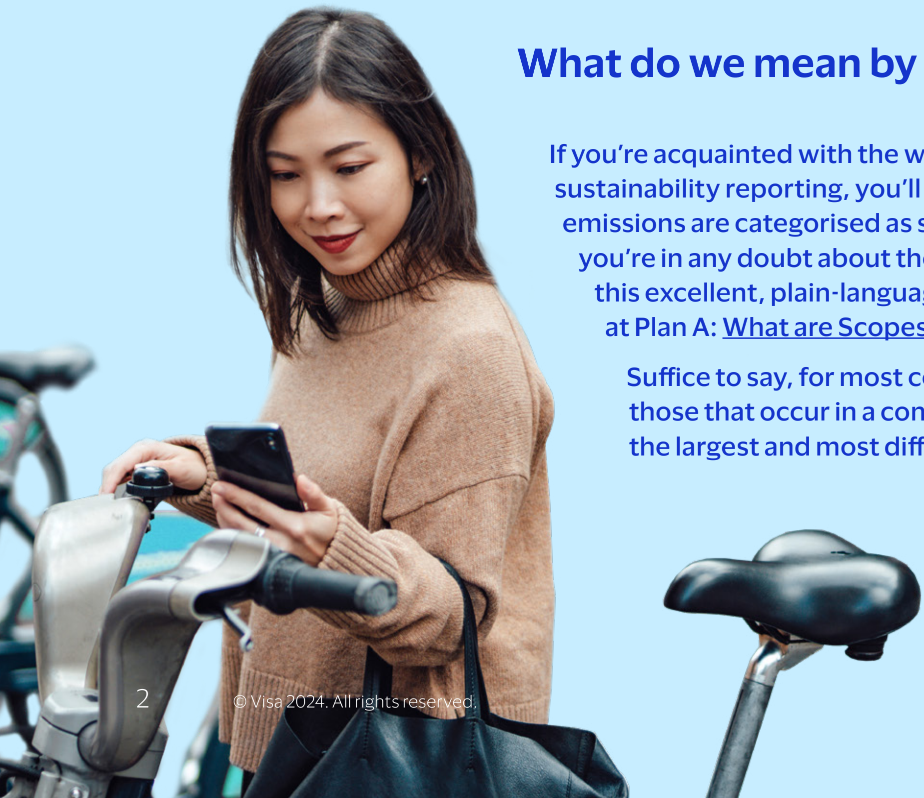
Payment and banking data therefore has the potential to be a mechanism for understanding, measuring, and monitoring the carbon footprint of a business. There's potentially an opportunity to correlate and/or supplement a company's credit risk with its environmental risk.

As a sector, we're not there yet. But we're headed in that direction. And Visa is already working with banks to develop compelling sustainability-related services that create real business value, solve real business challenges and, at the same time, help the European economy to decarbonise.

What do we mean by scope 3 emissions?

If you're acquainted with the world of sustainability and sustainability reporting, you'll know all about the way carbon emissions are categorised as scope 1, scope 2, or scope 3. If not, or you're in any doubt about the definitions, we'd urge you to read this excellent, plain-language primer produced by our partners at Plan A: What are Scopes 1, 2 and 3 of Carbon Emissions?

Suffice to say, for most companies, scope 3 emissions – or those that occur in a company's value chain – represent by far the largest and most difficult to quantify emissions category.



1 High on the agenda for many European businesses – and heading that way for many more

If you work in the sustainability sector, you'll be very aware of two new acronyms – CSRD (which stands for the EU's Corporate Sustainability Reporting Directive) and ESRS (the new European Sustainability Reporting Standards).

If you're a step or two removed from the world of sustainability, you may not yet appreciate what these are, or the profound impact they are set to have on almost every European business, and on companies with European operations.

In simple terms, these two acronyms mean that, within the coming few years, an estimated 50,000[1] European businesses will have a statutory obligation to measure and report consistent, comparable, and transparent sustainability data[2].

But it goes further than European businesses. Neighbouring jurisdictions are formulating similar rules. Also, non-EU businesses with sizeable European operations will need to comply. And, because sustainability due diligence is part of ESRS reporting, the net will be cast yet further – with almost all EU-based companies looking to get sustainability commitments from their respective supply chains.

As Deloitte puts it, "CSRD and ESRS are catalysts of the green transformation of businesses in the EU[3]." Or, in the words of the international law firm Stibbe,

> "the importance of strategic-level engagement with sustainability matters in response to the CSRD should not be underestimated. This requires a shift in mindset from simply complying with regulations to actively considering sustainability as a key business issue[4]."

In February 2024, with the European business community reeling from the enormity of the change, the European Commission agreed to limit the scope of required reporting, and to broaden the scope further in 2026. This paper is not the place to get into the details of the ESRS nor its timing. Instead, the point we are making is that, in the light of ESRS, companies across Europe and beyond will be taking sustainability even more seriously, will be looking ways to integrate it into their business, and may also be looking for financial support to help them make the transition.

CSRD and ESRS – a quick timeline

From FY2024
CSRD (incl. sector agnostic ESRS) apply to in-scope companies

June 2026
In-scope companies need to report their sustainability performance also against ESRS sector-specific standards

From FY2026
All listed SMEs, including non-EU listed SMEs need to report against all ESRS. Optional standards for non-listed SMEs proposed

From FY2028
All non EU entities with EU operations of €150 million or subsidiaries in EU will need to report against all ESRS

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2 Beyond compliance – the wider business benefits of embracing sustainability add to the rationale

Of course, it's not simply a matter of compliance.

Beyond CSRD and ESRS, there are many tangible business reasons why many companies are embracing sustainability. Indeed, indications suggest that companies embracing sustainability will become more resilient, and/or more attractive to investors, and/or more attractive to customers, and/or easier to recruit and retain employees, and/or find it easier and cheaper to borrow money, and/or able to command a higher price for their products and services.

RECRUITMENT
40%
of talent seek sustainability[5]

INVESTMENT
+80%
of investors consider ESG when making decisions[6]

FINANCING
-100bp
weighted average cost of capital for green leaders[7]

GROWTH
+4-25pp
CAGR for sales growth of green products[8]

COST
~50%
of emission reduction at net zero cost in key sectors[9]

MARGINS
Clear and substantive
correlation between consumer spending and sustainability[10]

REGULATORY RISK
+2-12pp
after EU Carbon Border Tax for green leaders[11]

VALUE
+3pp
total shareholder return for green leaders[12]

COMPENSATION
70%
of investors think ESG should be factored into executive pay[13]

3 But for many businesses, there's a BIG disconnect between good intentions and tangible action

Against this background, most businesses say they do recognise the strategic importance of embracing sustainability. In global research led and commissioned by Visa, 65% of businesses said environmental sustainability is important for strategic decision making, and 84% believe their environmental performance is as at least as good as others in their market[14].

In the same study, businesses also say that pressure to embrace environmental sustainability is both internal and external:

Internal pressures	Desire to be a good corporate citizen	Potential to be more efficient	Potential to reduce costs	Decision makers are environmentally conscious
External pressures	Improve business reputation	Meet customer expectations	Achieve environmental certifications	Match competitors' products

But there's a BIG disconnect – because, despite the apparent commitment and the weight of internal and external pressure, just 35% of businesses say they have achieved any environmental sustainability goals or milestones[15].

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4 There are several salient challenges that businesses need to overcome

There are many reasons why businesses struggle to turn good intentions into a tangible environmental sustainability commitment.

They see the wider environmental benefits and acknowledge the longer-term strategic importance but, often, the consequences seem remote. And, even when there is a direct and immediate rationale, such as a regulatory requirement or a need to meet customer expectations, the practicalities often get in the way. And the smaller the business, the bigger the barriers can be.

According to the same Visa study, complex reporting requirements and opaque supply chains can be big issues. But often it's a simple matter of time and resource constraints, and the need of smaller businesses to focus on delivering the incoming orders and winning the next ones[16].

Key reasons why businesses struggle to embrace sustainability

Cashflow is the key priority...

Being sustainable cannot be at the detriment of profit or cashflow, which is where most attention tends to be focused.

Knowledge is limited...

Some businesses do what they think is right, but this can limit them in making meaningful changes in business practices.

Only as good as the ecosystem...

Supply chains are typically complex, cross borders and lack transparency, and standards are not uniform.

Bound by industry parameters...

If an industry is less mature, it can be difficult for companies in their ecosystem to improve performance – especially if margins are tight.

The ROI is unclear...

The direct, tangible value to a business tends to be unclear, making investments in time and money difficult to justify.

Measurement is a challenge...

And it's most acute in service-based businesses where tangible products are not produced, packaged or shipped.

Additional financial resources are needed...

To truly embrace sustainability, companies need to absorb costs and invest time and money.

Sustainability goes beyond the core business model...

There is little capacity to address issues that don't currently impact or contribute to ongoing financial sustainability.

Source: Visa-commissioned global research[17]

Based on this global research programme, the study concluded:

> **Across most markets, measuring and tracking environmental impact is the most salient challenge[18]**

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5 Ultimately, banks ought to play a key role in addressing the challenges and clearing the roadblocks

Ultimately banks can and should have a key role to play in helping their business customers to decarbonise – partly by helping them track and certify their emissions performance, partly by helping them manage their credit rating, and partly by providing the financing they may need to pursue their sustainability programmes.

We say "ultimately", "can" and "should" because, right now the ability for banks to provide holistic or fully formed solutions remains theoretical and aspirational. But we know that many of the building blocks are falling into place, and we see several forward-thinking banks moving ahead with immediate and pragmatic solutions which nonetheless solve real business challenges and create real business value.

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So, let's consider the three dimensions – of tracking, credit rating, and financing – one-by-one:

#1
A direct line of sight to environmental performance

In theory, payment and banking data provides a direct line of sight to all a company's spending – and, by implication, all its scope 3 emissions (which, as any sustainability consultant will tell you, are by far the hardest to track).

Payment and banking data therefore has the potential to become a meaningful mechanism for understanding, measuring, and monitoring the carbon footprint of a business.

The industry is working hard to make the theory into reality. For example, Visa has partnered with ecolytiq and Plan A to provide carbon tracking insights and management services linked to payment data, and with Lune to offer carbon offsetting options. Similarly, open banking aggregator Tink has partnered with ecolytiq to deliver a tracking and management solution linked to banking data.

Right now, neither organisation would claim to deliver a holistic, enterprise-grade solution that captures the totality of spend. But they are clearly headed in that direction. And, for some spheres of spend, they can already deliver a robust and compelling solution.

Consider business travel which, for many service-based businesses, typically accounts for a large proportion of scope 3 emissions. Through a combination of traditional, virtual and lodge card products, all such travel and accommodation expenditure could be realistically captured, the carbon intensity could be evaluated, peer benchmarking could be performed – and, with minimal effort or investment, a company could potentially start setting related decarbonisation targets and steering employees towards lower-carbon behaviours.

This is a first step. In the future, more spend across more sectors can be captured, more contextual data can be integrated, and more accurate tracking can be provided. Also, as regulatory regimes like ESRS become better embedded, yet more data could be aggregated and integrated – enabling companies to evaluate and manage their spend across all ESG dimensions, and not just carbon.

#2 A way to manage the correlation between climate risk and credit risk

Already, sustainability considerations are having a big impact on financing decisions, financing costs, and investor appetites. And any serious businessperson would probably agree that, as we go forward, climate risks are in danger of converting to credit risks and creating evermore significant financing challenges.

All this falls within a bank's natural territory. So, it makes sense for them to step up to provide mitigating services to business customers.

For example, payment and banking data could help banks to identify companies within their existing customer base that have the greatest exposure to sustainability-related risks – whether that be regulatory risk or reputational risk. They could then engage with these customers on what this means for their credit rating, and how their finances are likely to be impacted going forward. And they could recommend packaged solutions and propositions which help them to reduce their exposure – including carbon tracking services, and the means to finance the recommended investments in sustainability management, business process changes, and climate risk management.

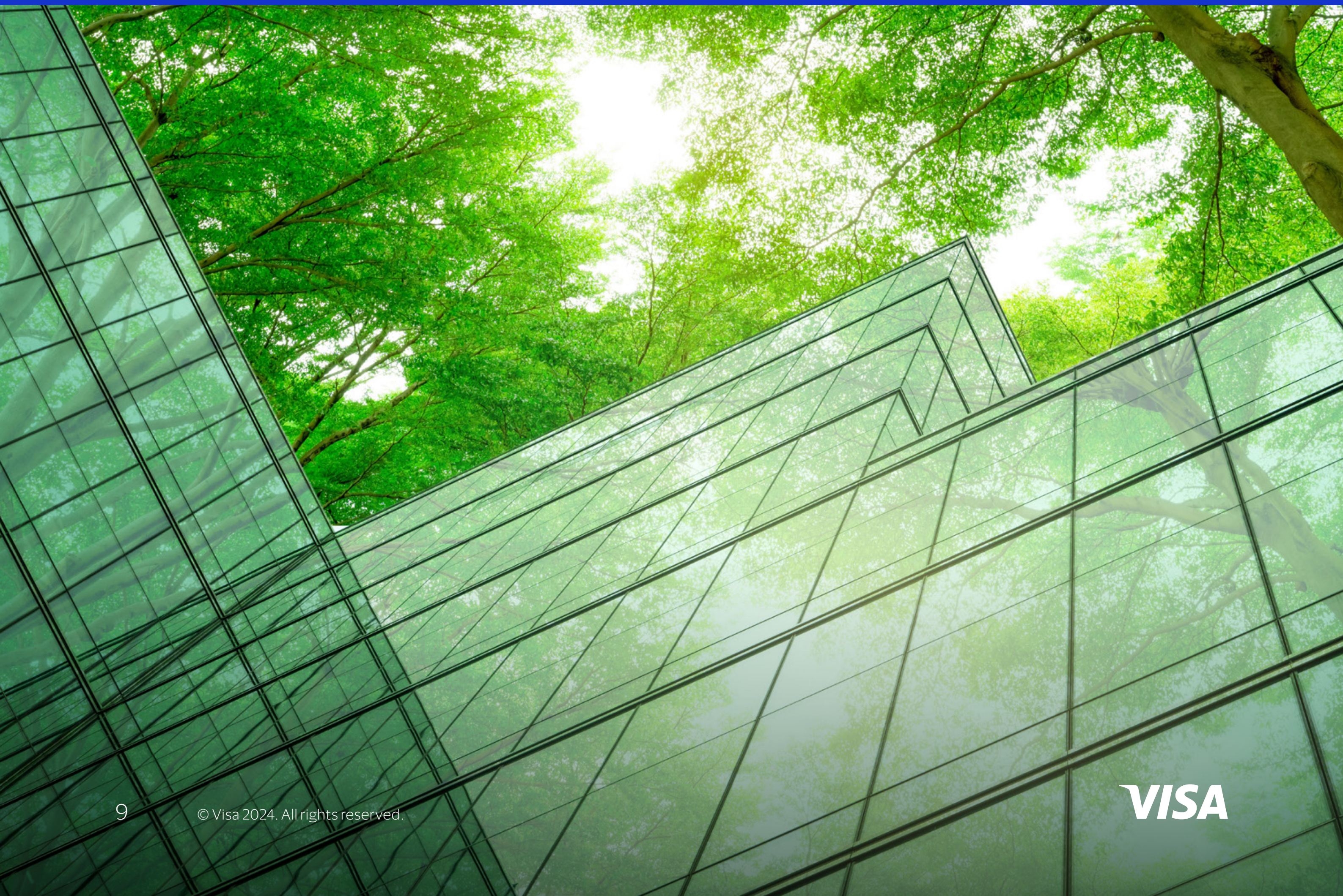
#3 A way to help businesses balance profitability, growth, and sustainability

As our research reveals[18], many companies have real issues balancing the medium- to long-term rationale for sustainability with the immediate everyday realities of chasing cashflow.

In other words, they know, in time, they will need to get serious about sustainability. They also know, in time, a failure to address sustainability could undermine the very viability of their business. But, for the short-term, they are too preoccupied with chasing and delivering on orders. And they can only justify investments that will drive short term revenues and/or profitability.

It's a real dilemma, and one that banks can help to resolve. There are definite opportunities here to help set business customers on their sustainability journey – offering solutions that bring to life a company's whole-of-life environmental impact, and offering financing solutions that make sense over both the short- and long-term.

A good example that offers immediate benefits could be a financing solution to enable a company to migrate to electric vehicles (EVs) for its complete corporate fleet, integrated with an ongoing solution to pay for charging when employees are out on the road.



6 Drawing inspiration from existing products and propositions

Although many payment players have, so far, been cautious to enter the fray, there are several examples from around the world to draw inspiration from. Here are two such mini-case studies:

Commercial bank seeking a solution to support its clients' sustainability reporting challenges

The multi-country bank has been developing a strong positioning around sustainability, and aims to deliver tailored solutions for its business and corporate clients. Utilising a consultative approach, the bank was aware that many clients were having challenges in adapting to regulatory requirements and investor expectations around sustainability reporting, and approached Visa for a solution.

Together, we explored the ways that the Visa Sustainability Index (VSI) could enable indicative emissions calculations across a range of spend categories, with a particular strength in travel and entertainment (T&E). We also looked at the options to tailor VSI to help meet local regulatory requirements and for Visa to deliver data in the correct format for clients to incorporate into their existing software platforms. A solution was delivered to enrich the configuration of the bank's Visa commercial payment data and configured for its reporting platform.

Designing and delivering a market-leading T&E carbon tracking solution

Visa worked with a tier-one commercial card issuer to design and implement a new T&E carbon tracking solution. The issuing bank had seen that many of its business and commercial clients were struggling to quantify their scope 3 emissions, and were often confused by the variety of software-based tracking and management solutions available – it was determined that there was an opportunity to add value to clients, while also leveraging the solution to capture a greater proportion of T&E spend.

In the first instance, we conducted a pilot study using a data set of the bank's own T&E data. Based on the findings, we then developed a methodology for the bank to get a clearer understanding of the market opportunity, identify appropriate use cases and segments to explore, and build and implement a clearly differentiated, scheme-agnostic T&E carbon tracking solution.

How Visa can help

Through a combination of Visa Sustainability Solutions and Visa Consulting & Analytics, Visa provides direct access to a range of sustainability-focused advisory, data science and product solutions, plus established relationships with a roster of climatech partners. Because we understand the nature of your business, know the detail of payments and banking ecosystems and have already delivered several sustainability-related propositions, we can bring significant value.

Components of advisory services span include:

Market landscaping
Conduct a review of global market trends, end customer needs, and and a marketing scan to outline key opportunity areas.

Business line interviews
Interview senior internal stakeholders to understand their ESG ambitions and explore the needs of their end customers.

Discovery workshops
Reach consensus on the client's ambitions and prioritise the key features that a solution should include.

Use case assessment
Identify, map, validate and prioritise a series of the most promising use cases.

Customer research
Interview a representative selection of end customers to understand their challenges and their appetite for a solution.

Co-creation workshops
Prioritise use cases according to customer needs and work with the client team to agree on optimum offerings, in line with business objectives.

Business requirements
Support definition of technical and operational requirements, and the capabilities that will be needed/ expected from external partners.

Partner selection
Help identify the most appropriate external partners, based on credentials, reputation, flexibility, compliance and cost.

Implementation roadmap
Help plot a complete implementation roadmap for a MVP, to cover technical, operational, compliance, and communications workstreams.

Visa, helping to accelerate sustainable choice

Visa in Europe is investing in its ambition to provide sustainability focused payment solutions to clients and partners to help them meet their customers' needs and accelerate the sustainable choices for ways to pay and be paid.

The Sustainability Solutions team actively seeks out collaboration with clients and partners across Visa's network to design and create solutions for and with the broader payments ecosystem.

The aim is to promote the adoption of sustainable behaviours for consumers and businesses enabled by removing friction and increasing the availability of sustainability focused payment choices. The team works with Climate Tech Services, and with partners to facilitate seamless payments in electric vehicle charging. They also make use of Visa's advanced data capabilities, insights, existing and new products, and payment offerings to foster sustainability, with the broader aim of supporting Visa clients in their journey towards net zero.

Visa has also formed a Visa Consulting & Analytics Sustainability Advisory Practice. In a complex environment, this cross-functional practice supports clients to navigate their current sustainability strategy, develop their roadmap and importantly design the business case for embedding a sustainability-focused approach for their organisations and their customers.

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[1] For an overview of CSRD and its impact, see: https://plana.earth/academy/csrd-corporate-sustainability-reporting-directive

[2] For an overview of ESRS and its implementation, see: https://www.ey.com/en_si/sustainability/impact-of-the-new-european-sustainability-reporting-standards

[3] Deloitte, EU Corporate Sustainability Reporting Requirements Strategic and operational implications of CSRD and ESRS, 2023: https://www2.deloitte.com/content/dam/Deloitte/uk/Documents/ecrs/deloitte-uk-csrd-esrs-ra-perspective-new.pdf

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[10] McKinsey & Company, Consumers are in fact buying sustainable goods: Highlights from new research, 2023: https://www.mckinsey.com/industries/consumer-packaged-goods/our-insights/consumers-are-in-fact-buying-sustainable-goods-highlights-from-new-research

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[12] World Economic Forum, Winning the Race to Net Zero, 2022: https://www3.weforum.org/docs/WEF_Winning_the_Race_to_Net_Zero_2022.pdf

[13] PWC, How do investors see ESG and what does it mean for business? 2023: https://www.pwc.com/gx/en/services/sustainability/publications/cop26/how-do-investors-see-esg-and-what-does-that-mean-for-business-pwc-cop26.html

[14] Visa global sustainability research and analysis: qualitative and quantitative research phases, conducted across 18 countries in 2022

[15] Visa global sustainability research and analysis: qualitative and quantitative research phases, conducted across 18 countries in 2022

[16] Visa global sustainability research and analysis: qualitative and quantitative research phases, conducted across 18 countries in 2022

[17] Visa global sustainability research and analysis: qualitative and quantitative research phases, conducted across 18 countries in 2022

[18] Visa global sustainability research and analysis: qualitative and quantitative research phases, conducted across 18 countries in 2022

[19] Visa global sustainability research and analysis: qualitative and quantitative research phases, conducted across 18 countries in 2022