

**Impact of Environmental, Social and Governance and  
Environmental, Social and Governance Scoring on Businesses  
and Investors: The Case of Fintech Businesses**



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Abstract

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Subject Impact of Environmental, Social and Governance and Environmental, Social and Governance Scoring on Businesses and Investors: The Case of Fintech Businesses

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This thesis aims to answer "ESG Scoring on Fintech impact on the investor, the company and the company's transparency"

The author gives an overview of what Environmental, Social and Governance is to get the fundamentals, the impact of ESG on investors and fintech, and explains and compares the different ESG scoring methods.

The author, with the use of mixing methods, answers the previous question, furthermore, compares three Fintech ESG business' data and applies the Refinitiv ESG score

The author creates a new ESG scoring method based on incidents to confront the lack of transparency on ESG data and uses two business cases to show in a practical way how the new ESG score can be applied.

Keywords ESG, ESG scoring, ESG Controversies, FinTech

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## 1 INTRODUCTION

This thesis aims to understand the trend of Environmental, Social and Governance (ESG) better. ESG is the use of environmental, social, and governance aspects to appraise how far along businesses are with sustainability. This strategy has been gaining power over the last few years. The importance was notably evident during the coronavirus outbreak, in which ESG funds were one of the biggest winners. Many investors have realised the value of developing sustainable and resilient company models that respect the interests of many interest groups as a result of the volatility brought on by the epidemic.

Nevertheless, this thesis scopes on two subtopics inside the ESG strategy, the Fintech sector and the ESG risk scoring. The banking sector is essential to decrease the crisis that is starting to surface right now. However, the sector's biggest problem is the impending digital revolution, which will completely change how business is done today. A process brought about by a shift in consumer buying patterns. The epidemic has accelerated younger consumers' adoption of new behaviours. They are more sophisticated, demanding clients who utilise several digital channels instead of traditional banking methods. The Fintech businesses and the implementation of an ESG strategy is a significant character in this transition.

Many businesses are creating ESG scoring assessments to contribute to the ESG strategy. The thesis aims to understand the prominent companies' parameters and show the leading and most important parameters to assess the business in an ESG way.

### 1.1 Research question and motivation

The author's motivation to write this thesis is the need always to persuade the top trending business investing patterns; given that the author believes that ESG is a trending topic nowadays, the author felt the need to go deep inside the ESG criteria.

The author chooses the Fintech company as a kind of company to follow due to the author interest for the Fintech industry.

The author is an investor as a hobby, which gave the motivation to focus on the ESG scoring and check if it affects investor behaviour. Thanks to the previously mentioned, the author formulated the following question "How does ESG Scoring on Fintech impacts the investor, the company and the company's transparency?"

## 2 THEORETICAL FRAMEWORK

### 2.1 ESG

ESG is the use of environmental, social, and governance aspects to appraise how far along businesses are with sustainability. In recent years, they have emerged as a source of information for socially conscious investing. (Robeco , 2021)

ESG criteria have ambiguous definitions. Therefore, the best course of action is to outline the company's capability for action in these areas so investors can quickly see the intangible effects. (Robeco , 2021)

Advice on an ESG index, which enables a more direct study of relevant data about environmental, social, and corporate governance issues, is essential to achieving this goal. (BBVA, 2021)

Directors and management workers will nowadays be able to make better decisions for the firm thanks to a structured and understandable index on ESG issues. In addition, investors will be able to recognise and reward businesses with money sustained over time. (BBVA, 2021)

#### Environment:

Those corporate actions that have a favourable influence on the environment fall under the category of environmental criteria in an ESG strategy. Actions to minimise waste production, pollution, and greenhouse gas emissions are a few examples of this. (Robeco , 2021)

The efforts may have a proactive goal, such as the reconversion of the energy matrix or the conservation of biodiversity. However, they should not merely be focused on reducing the negative consequences of the business. (Robeco , 2021)

#### Social:

Human rights, labour standards in the supply chain, any exposure to child labour that is prohibited, and more everyday concerns like awareness of workplace health and safety are all considered social. As an example, if a business is effectively integrated into its neighbourhood and hence has a social license to operate with approval, its social score will also increase. (Deloitte, 2021)

#### Governance:

In the framework of corporate governance, governance designates a framework of standards or rules that clarify the responsibilities, rights and obligations of the various parties. A defined corporate governance framework should be utilised as a way of assisting a corporation's long-term strategy and aligning or balancing the interests of its stakeholders. (Deloitte, 2021)

### 2.1.1 ESG VALUE

A compelling ESG offer enables businesses to enter new markets and grow within current ones. Individuals in government are more eager to concede business concessions, permissions and authorisations that will open up further prospects for development when they have faith in the business. However, significant research indicated that businesses with social engagement initiatives that the general public and social stakeholders saw as valuable, have an easier time collecting such resources without lengthy planning or operational delays. Comparing them to business rivals with smaller social capital, these enterprises earned values that were clearly greater. One of the significant impacts is also the customers; it claims that becoming green is worth the price. (Henisz, 2019 )

By rethinking goods, enhancing manufacturing procedures, upgrading equipment, and recovering and reusing industrial waste, ESG may also significantly lower costs and have an impact on operating profits of up to 60%. (Henisz, 2019 )

Companies have the ability to generate more strategic freedom thanks to a bigger set of external value propositions, which minimises regulatory pressure. In reality, across industries and regions, it is clearly shown that with these instances, ESG clearly lowers the probability of unfavourable government action for businesses. (Henisz, 2019 )

A compelling ESG proposal may support businesses in attracting and retaining top talent, improving employee engagement by fostering a sense of mission, and boosting overall productivity. Employees who feel self-connected and are existentially satisfied tend to work better.. The more an employee feels that their job has a positive influence on others who benefit from it, the more driven they are to act in a prosocial manner. A stronger ESG proposition may boost performance, while a higher sense of purpose can motivate the staff to work more. (Henisz, 2019 )

By directing funds to alternatives that are more attractive and sustainable, a compelling ESG argument may increase investment returns. Additionally, it can assist

businesses to stop investments that would not be monetary profitable due to long-term environmental problems. As an example, the appliance of energy prices can be impacted by governmental regulatory responses to emissions, and the financial status of carbon-related companies may be particularly affected. It could happen that in the future, the enterprise will receive a new set of regulatory aspects that could harm them in a long run. One method to anticipate the future is to think about repurposing assets now. (Henisz, 2019 )

### 2.1.2 SDG CONNECTION

Organisations may monitor their environmental and social impact and identify their economic opportunities and threats by addressing ESG aspects. Additionally, as the corporate sector intensifies its attention on ESG, the Sustainable Development Goals (SDGs) of the United Nations are becoming more widely acknowledged as a helpful framework for responsible investing. (Team, 2022)

The Sustainable Development Goals (SDGs), sometimes collectively known as the global goals, were enacted by the United Nations in 2015 as a proposed world call to action to help eradicate world poverty, preserve the natural environment and to ensure that, by 2030, peace and prosperity will be a reality for all people. (Team, 2022)

The 17 SDGs provide an interpretation that development must be balanced across social, economic and environmental sustainability, and that interventions in one area will eventually have an impact on development outcomes in other areas. (UNDP, 2022)

The SDGs must be achieved in every setting, and this requires the creativity, knowledge, technology, and financial resources of the whole population. (UNDP, 2022)

Despite being voluntary, the SDGs offer a set of goals that the corporate sector may use to create a plan of action. Human well-being, green economies, inclusive economies, education and equality, innovation, decarbonisation and energy, and preservation of the environment are the main focus of some of the SDGs. The goals,

which include every area pertaining to ESG indicators, may evaluate progress and enforce the responsibility of all firms. (Team, 2022)

On a business level, ESG elements may be broadly equated to the SDGs since specific ESG concerns can be attributed to each of the 17 objectives. Businesses may use a variety of tactics to align with the SDGs, including goal-setting, strategic integration, mapping, and assessment, as well as reporting and communication. The SDGs offer a variety of opportunities for companies to change the world. (Team, 2022)

### 2.1.3 ESG AND SUSTAINABILITY

Sustainability is only concerned with the link between a firm and the environment. ESG is concerned with the board, CEO, workers, shareholders, and other stakeholders of the organisation and their identities and decision-making. (Brightest, 2022)

Sustainability is a framework for making internal capital investments. ESG is based on standards set by legislators, investors, and ESG reporting organisations, whereas sustainability standards, while also set by stand-alone organisations, are based on industry standards. ESG may be measured using dozens of different frameworks, such as carbon (CO<sub>2</sub>) emissions. (Brightest, 2022)

One of the three pillars of ESG is sustainability, along with more significant social and corporate governance issues. (Brightest, 2022)

ESG is often more important for major businesses that are listed on stock exchanges or that require institutional finance. Nevertheless, as more banks and financial services companies apply ESG principles to their operations, ESG is also becoming more critical to startups and smaller businesses. (Brightest, 2022)

The main area where ESG and sustainability diverge is in their overall risk and materiality profile. For instance, even if a corporation has a manufacturing plant that is entirely carbon neutral, waste-free, and powered by renewable sources, it may still be highly hazardous for employees to work in on a daily basis. (Brightest, 2022)

#### 2.1.4 ESG MATERIALITY ASSESSMENT

Companies frequently have a broader effect than they may be aware of. Finding potential areas in their company's value chain where it can produce harmful externalities is a part of doing a materiality study. Professionals believe this may provide businesses with a more profound knowledge of their company, its effects, and the issues, procedures, and regulations that matter most to their primary stakeholders. The businesses may utilise the insights gained from identifying their company's most significant ESG risks and opportunities to help them better manage these challenges in their strategic planning and reporting processes. By selecting where time and resources are spent, the management and executive team may use this crucial risk-management tool to direct the organisation effectively. (Flynn, 2022)

In contrast, there is an underlying increased cost for businesses that concentrate their efforts on inconsequential issues, according to research, which implies that enterprises focused on their plan to address essential ESG problems for their sector may outperform well over the long run. (Flynn, 2022)

#### 2.2 ESG FOR INVESTORS

Businesses that prioritise all of their stakeholders are more likely to succeed in the future. As a result, stakeholder capitalism will grow in significance. (Bell, 2021)

Let's make the assumption that a business wants to keep up to date with the market. In that case, ESG reporting and investing is the framework to adopt, whether implicated is an investor or a corporation, big or little. (Bell, 2021)

The most current Institutional Investor study from 2020 EY Climate Change and Sustainability Services (CCaSS), shows according to the poll, nowadays 72% of the 98% of investors that evaluate ESG execute a systematic analysis of ESG performance, up from just 32% in the survey done two years prior. In addition, 39% of individuals who presently follow an informal protocol intend to switch to one that is more strict. (Bell, 2021)

Institutional investors are setting up their portfolios to perform better in terms of ESG. This denotes a shift in strategy away from emphasising responsible funds and toward seeing ESG concerns as crucial to the performance of all investments.

ESG is expanding and changing quickly as more investors want to include ESG considerations in their investing decisions. In actuality, this year's (2022) ESG market is already expected to increase. Additionally, the Portfolio Decarbonization Coalition, an organisation supported by the UN and comprised of 27 institutional investors and asset managers, mostly from Europe, who collectively oversee \$3.2 trillion in assets, has pledged \$600 billion to finance green initiatives and projects. (Bell, 2021)

Legislators, investors, and the business environment are all putting increasing pressure on businesses to adopt ESG criteria. (Bell, 2021)

As ESG is the appropriate next step in sustainability, the rapidly growing demand for ESG-focused investment funds is projected to have a supportive effect on the approach of global decision-makers. ESG policies provide local businesses greater opportunities to stand out and win over devoted consumers by choosing solutions that are beneficial to society and the economy. (Deloitte, 2021)

VCs and investors are becoming more curious about how companies are doing on their ESG policies and practices, as evidenced by the €120 billion European investors have invested in sustainable investment choices since 2019. (Deloitte, 2021)

Strong ESG proposals may aid organisations in both market entry and market expansion. By providing more sustainable products, a company may use an acceptable ESG practice to draw in B2B (Business-to-Business) and B2C (Business-to-Consumer) customers. ESG can also influence customer preference. (Deloitte, 2021)

By allocating funds to more sustainable and viable options, such as scrubbers, renewable energy, and waste reduction, a strong ESG argument may produce excellent

financial returns. ESG may also assist companies in avoiding assets that may become stranded as a result of ongoing environmental issues, such as a sharp decline in the value of oil tankers. (Deloitte, 2021)

Most essential, businesses must start from the right baseline in order to properly account for returns on their assets. Therefore, to maximise the advantages of higher returns on their investments, they have to make sure that they place their money in more environmentally friendly items. (CFA institute, 2022)

Making sure businesses are dealing with organisations committed to emphasising ethical methods, upholding environmental standards, and continuing to uphold corporate social responsibility is another important advantage of investing in ESG equities. ESG investment funds are a great choice if investors want to be pleased and content with the kind of businesses investors are investing in. (CFA institute, 2022)

### 2.2.1 SRI

SRI is a form of investment activity that attempts to result simultaneously in both social change and economic impact for the investor. Corporations that provide a good sustainable or social effect, such as a solar energy corporation, can be listed as socially responsible investments, whereas those that deliver a negative impact can be excluded. Investors that are interested in SRI do not simply choose investments based on the usual measures, such as performance, costs, and the like; they also consider whether a company's sources of income and operating procedures are consistent with their principles. Furthermore, given that everyone has different beliefs, there will be differences in how various investors define SRI. (Arielle O'Shea, 2022)

### 2.2.2 Impact Investing

Investments made into businesses, nonprofits, and funds with the aim of producing a social or environmental effect in addition to a financial return are referred to as impact investments. Although this definition allows for a wide range of investments, two essential components, intentionality and measurement, should be included. The investor's goal should incorporate both a financial return and a social benefit component. Aiming to assess the social effect is important for impact investors to do even though there is more remarkable agreement on monetary returns on investment criteria. Essentially, every investment has an effect on society, some of them favourable and some of them detrimental. Therefore, benefit investors deliberately seek investments that provide quantifiable social impact. (Rockefeller, 2022)

### 2.2.3 Differences

Intentionality. An investor must want their investments to have a good influence on society or the environment. Impact investments are projected to yield a measurable return on equity or, at the very least, a return towards capital. Impact investments aim to provide financial returns that vary from below industry to the risk-adjusted asking price, which indicates that competitive profits are not always the goal of the investment. These investments can be in various categories of assets, such as fixed income, venture capital, private equity and cash equivalent investments. The investor's dedication to tracking and reporting the environmental and social performance and advancement of the underlying investments is a defining characteristic of impact investing. This commitment ensures openness and accountability while guiding the process of impact investing. (Nelson, 2021)

The impact must take into account all of the most significant potential impact paths for a particular investment and meaningfully improve development towards relevant social and environmental goals, such as the 17 United Nations Sustainable Development Goals (SDGs). The business model of the company should be based on

the actual effect. ESG is one step behind socially responsible investing because it does not include or exclude assets based simply on a particular ethical factor. An investor could decide to steer clear of any investment portfolio or exchange-traded fund (ETF) that holds equities in companies that produce weapons, for instance. An investor may also decide to designate a specific amount of their investment to businesses that give a large portion of their income to good causes. (Zou, 2022)

### 2.3 ESG SCORING

The ESG Score provides a clear assessment of the three sustainability criteria for a firm, a share, or a fund. (ThomsonReuters, 2017)

The conventional rating is not intended to be replaced, and rather, it is designed to be completed with more transversal and global information, enhancing the choices of the decision-makers involved. (ThomsonReuters, 2017)

In reality, taking both into account makes investment selections more sustainable over the medium to long term.

The ESG Score can be defined in essentially two different approaches:

The ESG score can in essence be identified in two distinct ways: A qualitative focus is relying on data that has been collected using surveys, integrating data from other sources, and eventually evaluated through a variety of different approaches; a quantitative perspective is based on publicly available information disclosed by the corporation in compliance with applicable international standards. (ThomsonReuters, 2017)

The primary danger is entering a preliminary evaluation due to the absence of data and the partial reporting technique when using the first path and evaluating ESG performance solely using the information that the firm self-declares. Alternatively, the use of substitute data being produced by the organisation's external stakeholders may

provide a totally objective and reliable insight into the measurements. (ThomsonReuters, 2017)

### 2.3.1 ESG RISK SCORING

The ESG Risk Ratings quantify the extent to which an organisation's economic value is threatened by ESG issues or, to put it more precisely, the size of an organisation's mismanaged ESG risks. The numeric score and risk category determine a company's ESG Risk Rating. Lower scores indicate less unmanaged risk, with the quantitative value indicating units of unmanaged ESG risk. Unmanaged risk is rated on an open-ended scale with a minimum score of zero (no risk) and a maximum score below 50 in 95% of the time. Enterprises are classified into one of five risk categories according to their quantitative rating (negligible, low, medium, high and severe). (sustainalytics, 2021)

These risk categories are absolute. Therefore an evaluation of "high risk" corresponds to an equivalent level of unmanaged ESG risk across all covered subindustries. This implies that any sort of corporation, such as a bank, may be easily compared to an oil firm. Companies have established a single currency for ESG risk with ratings from the ESG Risk Ratings. (sustainalytics, 2021)

When it comes to ESG Risk Ratings, a problem is deemed substantial if its inclusion or exclusion in financial reporting is likely to affect the choices made by a prudent investor. A challenge must potentially have a proper influence on a company's economic value and its financial drawbacks and outcome view from an investment viewpoint in order to be deemed relevant in the ESG Risk Ratings. (sustainalytics, 2021)

It should be noted that the world is moving toward a more sustainable economy, and as a result, better management of ESG risks should be associated with higher long-term company value. Even if the financial repercussions are not entirely quantified, some concerns are nonetheless viewed as relevant from an ESG standpoint. (sustainalytics, 2021)

### 2.3.2 ESG SCORES IN COMPANIES

The repercussions of an unsatisfactory grade might be severe, given that investors use ESG scores in their investing strategy. Investors could remove the company's shares from their investment portfolio if, for example, one ESG data source gave a firm a low grade, leading to the perception that it is an unsustainable asset. In the case that several investors make the same conclusion, the stock price may eventually suffer as a result. (simplysustainable, 2019 )

For the firm to continue attracting investment in Europe, where over 50% of assets are handled using responsible investment standards, it is critical to understand the company's ESG ratings and make improvements every year. (simplysustainable, 2019 )

Additionally, it is critical to recognise that ratings may be a handy internal benchmarking tool for directing choice-making and enhancing sustainability performance. (simplysustainable, 2019 )

An examination of the company's ESG performance by an outside expert provides an unbiased assessment of performance and how it stacks up against peers and rivals. This may serve as a potent inducement to act and take performance-enhancing measures. (simplysustainable, 2019 )

Additionally, the evaluation can serve as a reliable source of data for internal change agents, identifying areas of specific strength and weakness. (simplysustainable, 2019 )

### 2.3.3 SP Global ESG Assessment Score

The ESG Evaluation assigns a score out of 100. Active management of ESG criteria opportunities and risks, reasonably solid governance, and the organisation's capacity to adapt to change and capitalise on long-term trends and possibilities, a higher rating conveys their opinion that the entity is more likely to be sustainable. Similar to this, they often link lower ratings to more exposure to ESG-related risks, somewhat poorer

governance, and being less prepared to deal with or take advantage of possible long-term business opportunities and disruptions. (S&PGlobal, 2022)

In their ESG Evaluation Report, they provide their perspectives and in-depth analyses of each element, as well as how the individual environmental, social, and governance profiles contribute to the ESG Profile. (S&PGlobal, 2022)

One of the following categories, Best in Class, Strong, Adequate, Emerging, or Low, is used to describe the preparedness view. The manage of the ESG characteristics and preparedness illustrates the relativeness of the two evaluations at various scale points. The guidelines they use when fusing their preparedness assessment with the ESG Profile score are:

Best-in-class or strong preparedness is typically reflected in the highest ESG Evaluations. It is doubtful that improved preparedness will considerably outweigh the lowest ESG Profile ratings.

Best-in-class readiness is uncommon but usually has a very beneficial impact on the rating. (S&PGlobal, 2022)

Strong preparation usually has a beneficial outcome.

Except when the ESG Profile score is higher than 85, adequate preparedness often has little effect.

Emerging preparedness often has a detrimental impact.

Low preparedness is uncommon and often has a very bad outcome. (S&PGlobal, 2022)

Their examination of ESG variables is based on how they could influence stakeholders and perhaps have a significant direct or indirect financial impact on the company. (S&PGlobal, 2022)

In order to determine if an event or issue is substantial for their ESG evaluation, they consider its anticipated financial impact on the firm, taking into account potential negative effects from social and sustainable externalities. Events and issues are relevant for the ESG Assessment if, in their opinion, they have the potential to

significantly impact the entity's operations, cash flows, legal or regulatory obligations, capital access, reputation, or connections with important stakeholders and society at large. (S&PGlobal, 2022)

## Environmental

The environmental profile, which compares a company's environmental possibilities and dangers to those of its sector or industry, reflects the relative sustainability of that business.

They initially carried out a regional and macro sector examination of significant environmental risks and possibilities before determining an entity's environmental profile. SP calculates a sector-region score from this study, weighted by the entity's business mix.

Then, in comparison to peers in its industry internationally, they evaluate the entity's management of its environmental risk exposures using four important entity-specific factors: greenhouse gas emissions, waste, water, and land usage. (S&PGlobal, 2022)

## Social

According to the risks and opportunities related to a corporate social license to contribute in comparison to its sector or industry, the social profile represents their opinion on the relative sustainability of an entity and its main stakeholders. (S&PGlobal, 2022)

They first undertake a macro sector and regional examination of significant social hazards and opportunities to ascertain an entity's social profile. They calculate a sector-region score from this study, weighted by the entity's business mix. (S&PGlobal, 2022)

## Governance

The corporation is most likely to feature an important governance drawback relative to other corporations globally, according to their assessment of how far observable governance norms and practices may suggest this. It also represents their opinion on the governing structure of the company. (S&PGlobal, 2022)

The ESG Evaluation's investigation of corporate and institutional governance is a key component. The near-term governance structure and current governance facts are the main topics of the governance Profile. Separately, they evaluate the impact of governance on the corporation, planning, long-term strategy, and consequent culture. (S&PGlobal, 2022)

### 2.3.4 Bloomberg ESG Assessment Score

Bloomberg has noticed a marked surge in interest in ESG data. Through the creation of an unrivalled database, which is essential for compliance and risk management, their solution helps customers save money and significant resources. In addition, they provide the data as reported or derived for portfolio managers who need assistance making sense of this very unstructured information. (bloomberglp, 2019)

With the help of Bloomberg Intelligence (BI) and Bloomberg New Energy Finance (BNEF), the user can quickly discover significant ESG concerns by industry and make informed investment strategy decisions.

BI offers in-depth analyses and data sets on businesses in a variety of sectors, as well as information on the government, credit, legal, and economic issues that may influence choices. (esgthereport, 2020)

With regard to power and utilities, gas, carbon markets and climate talks, transport, renewable energy, energy smart technologies, and storage, BNEF includes research, long-term predictions, worldwide in-depth analysis, and independent proprietary perspectives. (esgthereport, 2020)

### 2.3.5 MSCI ESG Assessment Score

ESG variables can have an impact on the long-term risk and return profile of investment portfolios on a variety of topics, including the scarcity of natural resources, shifting governance standards, managing a global workforce, and changing regulatory environments. The purpose of MSCI ESG Ratings is to assist investors in understanding ESG risks and opportunities and incorporating these elements into the process of building and managing their portfolios. (MSCI ESG Research LLC, 2022)

Targeting the overlap between a corporation's core activity and industry concerns that could cause substantial risks and opportunities for a company, its research analysts evaluate thousands of data points across 35 ESG Key Concerns. Depending on how well a company performs compared to its competitors in the same industry, it is rated on a scale from AAA to CCC. (MSCI ESG Research LLC, 2022)

The MSCI ESG Rating methodology aims to respond to four crucial inquiries regarding businesses:

- Which ESG risks and opportunities are the greatest for a firm and its sector?
- To what extent is the business exposed to those significant risks or opportunities?
- How well is the business managing important risks or opportunities?
- How does a company's overall situation compare to that of its competitors in its worldwide industry? (MSCI ESG Research LLC, 2022)

The MSCI ESG rating methodology focuses exclusively on concerns that are assessed as relevant for each industry. When it seems likely that businesses in a certain industry would incur significant expenditures as a result of risk, such risk is considered to be considerable. When businesses in a certain industry have a good chance of profitably utilising an opportunity, such opportunity is considered relevant to that industry (for example, opportunities in clean technology for the renewable energy industry). (MSCI ESG Research LLC, 2022)


They identify substantial hazards and opportunities for each business using a quantitative approach that looks at specific values for each industry for externalised consequences such as co2 emission, water frequency, and accident rates. (MSCI ESG Research LLC, 2022)

### 2.3.6 Refinitiv ESG scoring

Refinitiv ESG ratings integrate and take into consideration industry materiality and business size biases, reflecting the underlying ESG data methodology and providing a transparent, data-driven evaluation of firms' comparative ESG performance and capability. The ESG score system used by Refinitiv adheres to a number of important calculating assumptions. Additionally, a total ESGC score is computed, which deducts points for news issues that have a significant effect on firms from the ESG score. The underlying metrics are specific enough to distinguish between firms that do not publish much, are opaque, or provide meagre implementation and execution from firms that become leaders in their particular fields or areas. For over 1,000 firms, back to the fiscal year 2002, ESG scores are produced and given access for all businesses and past fiscal periods inside the ESG worldwide coverage (mainly US and European). Two total ESG scores are included in the model: 1. ESG score - evaluates the company's ESG performance using publicly available, verified, disclosed data. 2. The ESGC score provides a thorough assessment of the company's sustainability effect and conducts over time by superimposing the ESG score with ESG controversies. Users can adopt and use the scoring that corresponds to their requirements, mandates, or investment criteria, thanks to the availability of both the two total ratings and underlying group assessments. As a result of the model's complete automation, data-driven design, and transparency, it is exempt from subjectivity and secret computations. (Refinitiv, 2022)

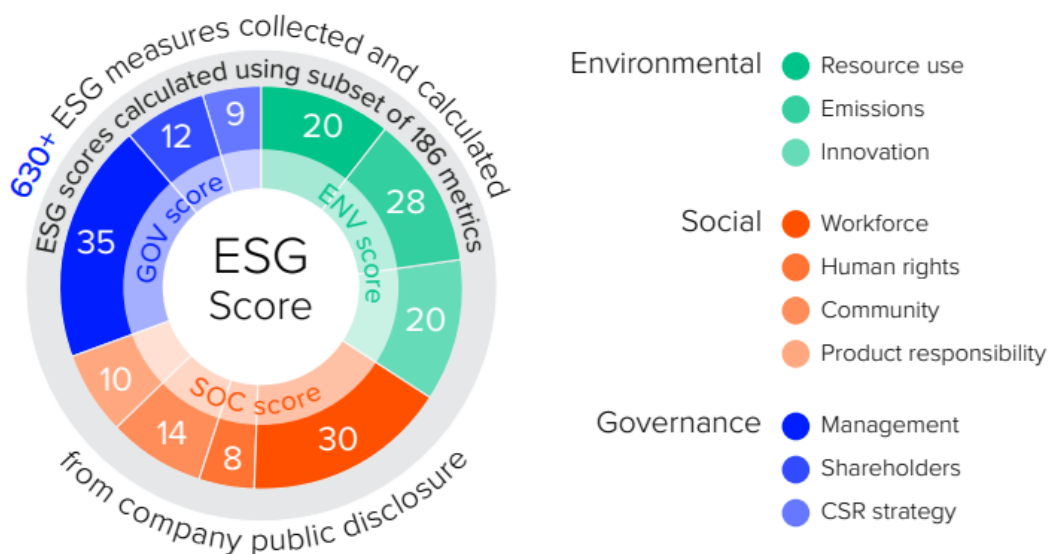
Figure 1. Score range Refinitiv (ESGscore, 2022)

Score range	Grade	Description
0.0 <= score <= 0.083333	D -	'D' score indicates poor relative ESG performance and insufficient degree of transparency in reporting material ESG data publicly.
0.083333 < score <= 0.166666	D	
0.166666 < score <= 0.250000	D +	
0.250000 < score <= 0.333333	C -	'C' score indicates satisfactory relative ESG performance and moderate degree of transparency in reporting material ESG data publicly.
0.333333 < score <= 0.416666	C	
0.416666 < score <= 0.500000	C +	
0.500000 < score <= 0.583333	B -	'B' score indicates good relative ESG performance and above-average degree of transparency in reporting material ESG data publicly.
0.583333 < score <= 0.666666	B	
0.666666 < score <= 0.750000	B +	
0.750000 < score <= 0.833333	A -	'A' score indicates excellent relative ESG performance and high degree of transparency in reporting material ESG data publicly.
0.833333 < score <= 0.916666	A	
0.916666 < score <= 1	A +	



Over 630 corporation ESG measures are captured and calculated by Refinitiv. A subsection of 186 of the most relevant and similar measures for each industry (details are available in the ESG glossary, which can be obtained upon request) is what powers the company's overall evaluation and scoring process. These are categorised into ten categories that reframe the three component scores and the final ESG score, which represents an assessment of the company's ESG performance, commitment, and efficacy based on publicly available data. The category ratings are combined into three pillar scores: corporate governance, social responsibility, and the environment. The ESG pillar score is a proportional total of the industry-specific environmental and social category weights. The weights for governance are constant across all sectors. (Refinitiv, 2022)

Figure 2. Score range Refinitiv (ESGscore, 2022)



## 2.4 Challenges Companies Face Because Of ESG

### ESG Governance Issues

Good governance is essential and, when disregarded, has contributed to some of the worst corporate media crises. ESG and the significance of human rights throughout the value chain are being highlighted more than ever by the law and media as a result of the changing nature of the world. The pressure on businesses to appropriately manage ESG concerns has increasingly increased. (Janssen, 2018)

If not applied, a firm may suffer reputational harm, compliance expenses, a potential loss of revenue, as well as the inability to attract top people. A firm may not have reliable finance or the capacity to draw in new investors if it does not appropriately adhere to ESG rules, laws, and regulations. (Janssen, 2018)

## Scope 3 Emissions

When adopting ESG in a supply chain, there are numerous obstacles to take into account, but managing Scope 3 emissions may be the most difficult. (Newman, 2022)

There are three scopes categories of greenhouse gas (GHG) emissions. Direct emissions are designated to as Scope 1. Scope 2 refers to indirect emissions from things like the production of bought energy. All additional indirect emissions from the firm value chain are covered by scope 3. (Newman, 2022)

It is a big region that many businesses must manage, and numerous non-direct factors influence the proportion. Being less than 10% of the total GHG emissions, employee car travel, industrial emissions, and office emissions are frequently simpler to monitor. The remainder is produced by the supply chain. (Newman, 2022)

## Culture

Senior staff personnel at the top must set a positive example by being open and honest about the organisation's objectives, requirements, rules, and ESG purpose. Employees, clients, and other stakeholders must be aware of the company's values and the importance of sustainability in its operations. Employees may contribute more to a company's sustainability mission and goals if they are aware of the benefits and significance of ESG.(Newman, 2022)

### Creation of Partnerships

Many businesses are unable to manage or assess ESG on their own since it is a vast area to monitor, particularly for bigger organisations. Companies won't be able to know their exact metrics or meet ESG objectives unless they maintain constant communication with both suppliers and clients across their supply and value chain. Companies, agencies, workers, stakeholders, and investors must work together, communicate more often, and engage in frank discussions about climate change and ESG aspects with others in order to raise the visibility and awareness of ESG elements. (Newman, 2022)

### Compliance Regulations

While supply chains are not dead, it may occasionally be simple to overlook those actual individuals employed there. To eliminate all types of social inequity or hazardous employment practices, state regulation is a crucial area of protection for those hidden employees. Technology advancements will be required to track, measure, and sustain the morally growing requirements under compliance legislation as compliance rates rise. (Newman, 2022)

## 2.5 ESG in fintechs

Financial institutions are now actively identifying and managing relevant business risks, and opportunities as ESG has gained traction within the finance and banking sectors. This momentum has an effect on FinTech, a quickly expanding participant in the financial industry. (Khumalo, 2021)

Numerous FinTechs have also seen expansion that has given rise to new obligations for a larger group of stakeholders, including those pertaining to ESG. Customers'

expectations are changing, and in addition to personalisation and other developments, customers are now more frequently asking for financial solutions that reflect their own beliefs towards social and environmental concerns. (Khumalo, 2021)

Customers are becoming more aware of the connection between their use of financial goods and global issues as ESG trends emerge. FinTechs will need to make use of their skills to be sensitive to the resulting shift in expectations due to the growth in climate strikes, political crises, and knowledge of inequality in what has been dubbed the information age. (Khumalo, 2021)

FinTechs run the same danger of green and social washing that traditional banking and finance do when attempting to capitalise on the ESG movement and meet changing client expectations. When ESG is not included in the company's primary strategy, this is frequently the case. The same is true of social washing, a term used more recently to describe businesses that claim to be socially conscious while actually doing nothing to solve social concerns. In order to address these growing demands, FinTechs should be prepared for ESG to be a topic of interest for stakeholders. They should also make use of their technological expertise and unique product development experience. (Grutman, 2022)

ESG FinTechs are capable of reaching fast development aptitudes, giving an impressive ESG innovation system, and assuring the investor money to facilitate their efforts to proceed in not only the environment but also the society while producing big amounts of profits. Some of the main biggest and most powerful financial institutions in the world have made a commitment to cut back on emissions related to their business activities. Additionally, they have promised to restructure their loan and investment portfolios by 2050 such that they would have a net-zero carbon footprint. Debt financing is the area of finance that has embraced ESG-related initiatives the most. Numerous green bonds and loans with sustainability-related terms have been issued. The promotion of these bonds and loans by major financial institutions is supplemented by the emergence of specialised fintech lending firms that place a

strong emphasis on sustainability and also have created specialised loan platforms and products. (Grutman, 2022)

The primary goal of climate fintechs inside the payments sector is to persuade customers to choose products, services, and business models that are more environmentally friendly and contribute to a reduction in consumer CO<sub>2</sub> emissions. Additionally, by connecting banking transactions with ESG objectives, all these services not only assist ESG objectives in developing but also attract a significant demographic group and sustain transaction income for climate fintech. The management of assets and wealth are two major areas of emphasis for ESG fintech. By either providing a specialised marketplace where investors can find ESG-friendly investment opportunities or by managing customers' portfolios with an eye toward creating an overall portfolio that achieves quantifiable ESG goals, these businesses assist individual investors in creating a more ESG-compliant portfolio. (Grutman, 2022)

Following its success in releasing a large portion of the world's unbanked through digital payments and integrated finance initiatives, the fintech initiative is ideally placed to produce another sociological breakthrough as it aids money managers and investors in comprehending the challenges of ESG investment obligations. Similar to how e-money, open banking, and mobile money in the late 1990s and early 2000s empowered new micro-businesses to transform economic growth in developing economies, the implementation of more advanced analytics and data management is now poised to deliver the advantages and potential that sustainable investing has long assured. (gomedici, 2021 )

We are only starting out on the path where Fintechs may turn ESG through thorough research and profiling into the instruments that build and strengthen a sustainable financial environment. Investment firms and executive offices will not be the only ones to gain from this; ultimately, business and employment practices that affect millions more people's lives and communities throughout the world will follow. Widespread adoption of ESG standards opened up a sea of business prospects for Fintech companies with strong database management capabilities and specialised ESG

knowledge that financial institutions such as banks may use and cooperate with. (gomedici, 2021 )

In the same way that they have throughout the years through inclusive financing and collaborative initiatives for such underbanked and unbanked, where big data has also been crucial, many Fintechs already help banks in areas like ESG profiling and climate risk assessments. Furthermore, it is crucial to underline that data still forms the basis of any ESG endeavour today. Because of this, fintech businesses that want to succeed in this surrounding must be done with a variety of tools, including NLP solutions for processing data, ESG industry-specific alternatives, as well as additional regulatory and traditional reporting solutions. Fintech has a lot to contribute in the field of ESG because they have already shown they are capable of achieving. (gomedici, 2021 )

#### 2.5.1 Main points of ESG involved in Fintech

Due to the financial services sector's explosive expansion over the past ten years, FinTech businesses have altered. Every area of the business has benefited from the introduction of technology, from improved cost reduction and quicker execution to safe transactions and more customer satisfaction. Here are four examples of how the ESG is involved in Fintech (nasdaq, 2022)

##### Services And Goods

A fintech bank that cleans the ocean for every dollar rounded up at the customer's end or a robot advisor that offers portfolios made up of ESG-oriented funds for customers to invest in are two examples of FinTech products and services that are focused on proposals across consumer and business propositions. (nasdaq, 2022)

##### Investing

Retail and institutional investors who approach the procedure of investing in businesses and initiatives that are making a positive impact, such as a venture firm which is concentrated on FinTech for integration in developing markets or the younger

generation who are socially aware and seek out financial resources that reflect their values. (nasdaq, 2022)

#### Economic inclusion

Initiatives in the field of financial technology with a social focus that target underserved groups in society, such as FinTech, provide low-cost financing to persons without a formal credit history, or mobile money platforms enable digital P2P financial transfers in places with little access to banks.

(nasdaq, 2022)

#### Statistic And Rating

The main players and the innovations they employ for gathering ESG statistics and rating different companies, both public and private, on ESG parameters, such as a rating agency that offers company ratings on different ESG variables for investment firms to decide whether to invest or online platforms that allow businesses to quantify and evaluate their carbon emissions. (nasdaq, 2022)

### 3 RESEARCH METHODOLOGY

The author conducted qualitative and quantitative data research in this part of the thesis (mixed methods).

This part is divided into two main groups.

In the first one; the author took three big fintech corporations with the purpose of analysing their different data related to ESG to have a crucial overview of the practical steps that the fintech follows to have a higher ESG scoring; furthermore, following the Refinitiv scoring method previously analysed on the theoretical framework, the author analyses in a quantitative way the ESG score of each of the three Fintech companies.

In the second one, the author defines quantitatively and qualitatively a new way of business ESG assessment; thanks to the previous analysis made from the different kinds of ESG scoring methods in the theoretical framework, the author comes out with an assessment score which focuses on the incidents of the companies during the fiscal year instead of just focusing on the company accomplishments during the year, furthermore, the author sets as an example two small case studies in which the reader can understand in a practical way how the ESG controversial score created works.

#### 3.1.1 Klarna Fintech ESG

One of the consumer ecosystems with the greatest growth rates worldwide is Klarna. They are a top worldwide retail bank, payments provider, and online retailer that gives customers time and money-saving opportunities as well as the ability to manage their finances responsibly and with information. Among the greatest issues facing humanity is climate change. Although Klarna became carbon neutral in 2020, they are currently concentrating on funding initiatives that actively reduce carbon emissions. By 2030, they want to cut their carbon emissions in half, and by 2040 at the latest, they want to be net zero. (KlarnaHolding, 2021)

### 3.1.2 Klarna Environmental

When it comes to corporate climate action, Klarna has chosen to adhere to the WWF and BCG guidelines. Their main aim is to make sure that each of their sites uses only green power by the year 2025. encouraging the measurement and reduction of emissions by its suppliers. In accordance with the Paris Agreement, they aim is to cut their carbon intensity-based emissions by 50% by 2030. Their business wants to run at net zero by 2040. reducing commutes and business trips. By 2025 just, at the latest, Klarna will have successfully achieved its objective of using green power by default. In order to meet Klarna's goal of a 50% reduction in emissions by 2030, the company wants to create a carbon-free cloud infrastructure and increase their efforts to purchase sustainable energy. (KlarnaHolding, 2021)

Klarna has three views on how to deal with energy pollution, direct emissions from operations like the heating system in their departments, indirect emissions from the electricity that powers the buildings and offices they rent, and Direct emission levels from all other operations like employee travel for work-related purposes and energy consumption for the services they use. (KlarnaHolding, 2021)

In order for Klarna's decarbonisation initiatives to reach a decrease in accordance with the Paris Agreement by 2030, the processes of carbon reduction and CO2 removal must occur simultaneously and swiftly. The implementation of an inner carbon tax was one supportive action. The revenue from the inner carbon tax is invested in projects chosen from the Environmental Transformation Fund, which is operated by its strategic partner and allows donors to contribute to initiatives. (KlarnaHolding, 2021)

### 3.1.3 Klarna Social

They ran a large number of initiatives in several markets in 2021 to demonstrate that managing one's finances does not have to be difficult and also that Klarna is the best

instrument for those who wish to do so responsibly and sustainably. (KlarnaHolding, 2021)

One hundred small to medium-sized businesses around the country received free services worth USD 4.5 million from Klarna to help them recover. Businesses were required to submit applications in order to earn a free year of online payments and free media services worth USD \$40,000. Additionally, they supported the LGBTQIA+ community by planning or taking part in Pride events for many years and raised money to support the specialist nurses who assist people with breast cancer and their families by offering free physical, mental, and emotional support from the time diagnosis through treatment. They also partnered with Cancerfoden. (KlarnaHolding, 2021)

Differences are accepted and highly valued at Klarna, and the firm works to offer everyone a diverse, equal-opportunity environment. They are aware of their significant cultural variety and have personnel from over 100 different countries. (KlarnaHolding, 2021)

Additionally, they strive to promote a healthy lifestyle among all workers by providing a range of health perks, including wellness bonuses, flexible work schedules, family benefits, and medical and rehabilitation insurance. In numerous nations, the internal training program of Klarna offers safety and health education that has been locally adjusted and that covers customs and procedures. (KlarnaHolding, 2021)

#### 3.1.4 Klarna Governance

The operational approach of Klarna is team-based, agile, and optimised for fast speed, flow, quality, and responsibility. To preserve the flexibility and innovation seen in startups, the operational model shifts from a more conventional organisational structure to engaging in identity teams of up to eight individuals. Each team at Klarna

is made up of individuals with a variety of skills who own and focus on a particular business objective. Teams have full responsibility for developing and executing value propositions that are in line with Klarna's overarching vision and strategy to their key stakeholder, whether internal or external. Klarna's working culture welcomes change and constant development in order for this to go successfully. (KlarnaHolding, 2021)

### 3.1.5 Klarna ESG scoring

Following the Refinitiv ESG score assessment (Simplified version).

ESG Score: 69,40% (B+)

ESG controversies 27,72% (C-)

ESG Combined score: 66,67% (B)

Total: B+

Table 1 Refinitiv score assessment

	2021	2020	2019
<b>Environmental Pillar Score</b>	<b>78,82% (A.)</b>	<b>79,63% (A.)</b>	<b>74,68% (B+)</b>
Resource use score	73,07% (B+)	77,40% (A.)	68,45% (B+)
Emissions Score	84,09% (A)	80,72% (A.)	74,37% (B+)
Environmental Innovation Score	80,81% (A.)	81,08% (A.)	81,13% (A.)
<b>Social Pillar Score</b>	<b>79,04% (A.)</b>	<b>80,67% (A.)</b>	<b>72,69% (B+)</b>
Workforce Score	79,26% (A.)	81,36% (A.)	75,80% (A.)
Human Right Score	64,73% (B)	66,16% (B)	68,35% (B+)
Community Score	87,80% (A)	95,5% (A+)	61,82% (B)
Product Responsibility Score	88,88% (A)	85,92% (A)	81,97% (A.)
<b>Governance Pillar Score</b>	<b>45,60% (C+)</b>	<b>50,38% (B)</b>	<b>68,50% (B+)</b>
Management Score	24,05% (D+)	37,89% (C)	60,61% (B)
Shareholders Score	89,76% (A)	60,76% (B)	76,86% (A.)
CSR Strategy Score	87,16% (A)	97,29% (A+)	95,43% (A+)

## 3.2 PayPal Fintech ESG

The most valuable digital payment system in the world is PayPal. It facilitates cross-platform and cross-device global commerce, giving consumers and companies everywhere new purchasing options. (Cag, 2022)

PayPal was founded in 1998 with the goal of democratising financial services and enabling individuals and organisations to collaborate and exchange goods and services for better experiences. (Cag, 2022)

The business enables people and businesses to accept payments in even more than 25 different currencies across more than 200 nations. Online billing, credit card processing, and purchase now pay later choices are just a few of the many goods and services it offers to ease the payment process. (Cag, 2022)

### 3.2.1 Environmental PayPal:

Net-Zero by 2040 in 2021, they unveiled ambitious and quantifiable medium-term science-based carbon reduction objectives guided by stakeholder collaboration, as well as a long-term objective of reaching net-zero greenhouse gas (GHG) emissions throughout their value chain by 2040. By 2025, 75% of their vendors, measured by expenditure, will have engaged within their supply chain and set their own SBTs. as a result of which the Scope 3 emissions connected to the goods and services they acquire will be decreased, Paypal will be able to achieve their long-term objective of net-zero GHG emissions by 2040. (Paypal, 2021)

Furthermore, enhancing their environmental management system (EMS) in accordance with their Environmental Sustainability Policy (ISO 14001-aligned), engaging with 200+ distributors on global warming in collaboration with CDP Supply Chain, consulting decision makers to evaluate better the impacts of global warming

affiliated with crypto assets, and contributing to emerging best practises are just a few of the things they have done recently. (Paypal, 2021)

### 3.2.2 Social Paypal

Paypal has committed \$535 million in total, all of which will be used to advance racial fairness, support and build communities and companies that are underrepresented, and work to solve the economic factors that contribute to racial injustice in the United States. (Paypal, 2021)

Paypal provided small and medium-sized companies with access to \$3.6 billion in finance in 2021; since 2013, it provided \$24.2 billion through more than 1.2 million loans; and pledged to provide \$108 million by 2026 to boost the economic empowerment of women and girls. In addition, for companies receiving their Empowerment Grants, Paypal initiated their fully featured PayPal app to help clients create their bills, get paid sooner, receive points, and send and receive cash. Paypal also facilitated well over \$19B in fundraising to endorse over 1M nonprofits and causes internationally, and they enlarged give at checkout to innovative markets across Europe, leading to a 140% rise in the amount of donations made using this product year over year. (Paypal, 2021)

### 3.2.3 Governance Paypal

they have raised the employee score on work-life balance to 75 in their annual employee survey (up 2 points from 2020). Over 100K self-directed courses were accessed by 21K workers to better their technical, interpersonal, and business growth and reached total diverse workforce of 56%, including 44% worldwide gender diversity and 52% U.S. ethnic diversity. Achieved 100% pay equality in the U.S. for Black, Latinx, and Asian women compared to white male colleagues, as well as 100% global gender and global U.S. ethnic equal pay. Through their digital revolution grantmaking process, 51% of worldwide workers helped allocate \$1.4M in gifts to charity organisations.

Nearly 84000 hours of volunteer work by PayPal employees (up 63% from 2020)  
(Paypal, 2021)

### 3.2.4 Paypal ESG score:

Following the Refinitiv ESG score assessment (Simplified version).

ESG Score: 81,80% (A-)

ESG controversies 27,72% (C-)

ESG Combined score: 54,76%

Total: B-

Table 2 Refinitiv score assessment

	2021	2020	2019
<b>Enviromental Pillar Score</b>	<b>50.83% (B-)</b>	<b>47.41 % (c+)</b>	<b>44,14(c+)</b>
Resource use score	86.29% (A)	76.17%(A.)	73.67(B.)
Émissions Score	99,31 % (A+)	(A+)	88,15% (A)
Environmental Innovation Score	0,00% (D.)	0,00% (D.)	0.00% (D.)
<b>Social Pillar Score</b>	<b>79,62 (A+)</b>	<b>75.26% (A-)</b>	<b>70.88% (B+)</b>
Workforce Score	96,75% (A+)	99.05% (A+)	85,72% (A)
Human Right Score	95,98%	66,57% (B)	50.88% (B-)
Community Score	97A9% (A+)	97.45% (A+)	98,32%
Product Responsibility Score	35,82(c)	35.14% (c)	35.27% (c)
<b>Governance Pillar Score</b>	<b>92,93% (B-)</b>	<b>87.67% (A)</b>	<b>77,13% (A-)</b>
Management Score	93,33% (A+)	87,13 (A)	75,17%(A-)
Shareholders Score	95.55% (A+)	90,77' (A)	88,50x (A)
CSR Strategy Score	87,04%(A)	85.67 (A)	69,89 (B+)

### 3.3 VISA ESG

The leading provider of digital payments globally is Visa Inc. Their goal is to unite the globe with the most cutting-edge, dependable, and secure payment network, allowing people, companies, and economies to flourish. With a capacity to handle over 65,000 transaction entries per second, their global processing system, VisaNet, offers safe and dependable payments to customers all over the globe. The company's unwavering commitment to innovation has sped up the development of linked commerce across all platforms and is the impetus behind the vision of a world without cash. Visa is utilising brands, products, people, networks, and scales as the world transitions from analogue to digital to alter the future of commerce. (Visa, 2022)

#### 3.3.1 Visa Environment

For the design, building, and fit-out of their office spaces, they pursue certifications from the U.S. Green Building Council, such as Leadership in Energy and Environmental Design (LEED), BREEAM, Green Mark, or equivalents. To improve resource usage efficiency in their current facilities, they apply green construction standards and principles. (Visa, 2021)

Through involvement in utility renewable energy programmes and the acquisition of renewable energy certificates, Visa continues to achieve its objective of procuring 100 per cent renewable power for its buildings and data centres, which was initially stated in 2018. Visa will issue its first green bond in 2021 for \$500 million to fund programmes that support sustainable business and the shift to a low-carbon operating environment. Water accounted for 46% of Visa's total water use in 2021. (Visa, 2021)

### 3.3.2 Visa Social

Expanded new talent experience programmes, including a partnership with the McKinsey Leadership Academy for Senior Director talent as well as a cluster coaching programme for staff up to the Senior Director level, to develop and advance the talent of Black and African American people and other historically underrepresented groups. They have launched the internal programme, Visa Black SUCCEED (Supporting Underrepresented Coaching Clusters Engaged in Executive Development), which is available to all Black and African American workers at the senior director level and below. Vice President and Senior Vice President level executives mentor programme participants. Programmes for senior directors who are Black and African Americans that are still being developed, as well as career sponsorship for vice presidents who are Black and African American. (Visa, 2021)

### 3.3.3 Visa Governance

In order to regulate legal and governmental risk, promote an ethical culture, and enable the company to accomplish Visa's goals lawfully and honourably, Visa's worldwide compliance programme offers processes and controls. The responsibility for Visa's worldwide compliance and ethics programme lies with the Office of the Chief Ethics & Compliance Officer and the business leadership. Contributing to the Data for Common Purpose Initiative of the World Economic Forum, including the creation and distribution of innovative frameworks for ethical data marketplaces. In close collaboration with business divisions, a worldwide team of tax experts oversees tax matters in every location. Everyone who works for or on behalf of Visa has a shared obligation to uphold the Business Conduct Code and Ethics and to conduct themselves in an ethical manner. Tax evasion is treated with a zero-tolerance policy by Visa. (Visa, 2021)

### 3.3.4 Visa ESG score

Following the Refinitiv ESG score assessment (Simplified version).

ESG Score: 54,46% (B-)

ESG controversies 16,50% (D)

ESG Combined score: 35,48%

Total: C

Table 3 Refinitiv score assessment

	2021	2020	2019
<b>Environment Pillar Score</b>	<b>78,82% (A.)</b>	<b>79,63% (A.)</b>	<b>74,68% (B+)</b>
Resource Use Score	73,07% (8+)	77,40% (A.)	68,45% (8+)
Emissions Score	84,09% (A)	80,72% (A.)	74,37% (8+)
Environmental Innovation Score	80,81% (A.)	81,08% (A.)	81,13% (A.)
<b>Social Pillar Score</b>	<b>79,04% (A.)</b>	<b>80,67% (A.)</b>	<b>72,69% (B+)</b>
Workforce Score	79,26% (A.)	81,36% (A.)	75,80% (A.)
Human Rights Score	64,73% (B)	66,16% (B)	68,35% (8+)
Community Score	87,80% (A)	95,5% (A+)	61,82% (B)
Product Responsibility Score	88,88% (A)	85,92% (A)	81,97% (A.)
<b>Governance Pillar Score</b>	<b>45,60% (C+)</b>	<b>50,38% (B)</b>	<b>68,50% (B+)</b>
Management Score	24,05% (D+)	37,89% (C)	60,61% (B)
Shareholders Score	89,76% (A)	60,76% (B)	76,86% (A.)
CSR Strategy Score	87,16% (A)	97,29% (A+)	95,43% (A+)

### 3.4 A new ESG Score model

A true difficulty is developing a thorough understanding of a company's sustainability profile. The essential sustainability signals frequently go missed by practitioners because sustainability data is typically presented in unstructured ways that are challenging to consume in a systematic manner. Addressing the data problem has become the first step in any established ESG strategy, as investors depend more on data-driven systems to achieve scalability and performance across ESG applications.

The author proposes a new ESG scoring method based on controversial parameters due to companies may monitor their controversial facts on ESG rating information. Still, issues are frequently harder to handle and are more likely to be mismanaged, either because they need to be more understood or, conversely, because they are misinterpreted. Companies should carefully evaluate their impact on a company's overall ESG rating as well as any possible effects on the company's reputation and investability. Rating companies' controversies based on the perceived seriousness or social effect of the issue, as well as the company's reaction. The author parameters are graded on a scale ranging from "extremely severe" to "minor."

### 3.4.1 ESG Parameters

The following parameters are a simplified way of how the author classifies the three kinds of ESG controversies topics for the future assessment.

Table 4 ESG new parameters assessment

ENVIRONMENTAL	SOCIAL	GOVERNANCE
Air Quality	Community Rights & Relations	Transparent accounting Methods
Air Emissions Policies	Community & Human Rights	Investors relationships
Air Emissions	Community Relations	Conflict of interest in board decisions
Climate Exposure Transition	Ethics & Compliance	Business ethics
Ecological Impact	Business Ethics	Political Influence
Ecosystem Protection	Competitive Behaviour	Legal Practicies
Environmental Fines	Legal & Regulatory Management	
Environmental Incidents	Labour & Employment Practices	
Energy Management	Health & Safety Management	
GHG Emissions Management	Health & Safety Policies	
GHG Emissions Policies	Operational Risk Management	
Waste Management	Operational Incidents	
Waste Generation		
Waste Recycling		
Wastewater Management		

### 3.4.2 Implementation.

The author aims to precisely aim at incidents following the parameters previously stated that happened throughout the fiscal year and, based on the multiple incidents repercussion, conduct a yearly fiscal assessment rating to evaluate the ESG impact of the company. If a scandal arises over the year, the participating corporation is punished, and this impacts their total ESG score and grade. If subsequent events, such as litigation, ongoing legislative fights, or penalties, are connected to the unfavourable occurrence, the influence of the incident might still be felt in the year that follows. As the dispute develops, all fresh media content is recorded. In contrast to the standard ESG ratings, the author wants to remove the lack of data transparency that concerns regular ESG scoring. With the implementation of this ESG controversy scoring, the investors and the community would have a better and live updated idea of how good, or bad the company is going concerning the ESG.

### 3.4.3 ESG scoring system

Table 5 ESG new parameters score

Score Range	Grade	Description
1<=score <=10	A	A. being the least level of harmful
11<=score <=20	A-	
21<=score <=30	B	
31<=score <=40	B-	
41<=score <=50	C	
51<=score <=60	C-	
61<=score <=70	D	
71<=score <=80	D-	
81<=score <=90	E	
91<=score <=100	E-	E- being the biggest level of harmful
No score	N	The business did not have any ESG related incident

Each incident is going to be attributed to one score and subsequently to one grade, to assess the business the Grade is going to be assess conducting the grade average.

### 3.4.4 PayPal incident score case study

NEWSLETTERS · FORTUNE CRYPTO

## PayPal's 'misinformation' misfire and what it means for finance

BY JEFF JOHN ROBERTS

October 10, 2022, 3:10 PM GMT+2

It was a quiet weekend—unless you were [PayPal](#). The payments and crypto giant, which also owns Venmo, got lit up on [Twitter](#) over a Friday news report that the company [planned to fine users](#) up to \$2,500 for promoting “misinformation.” By Saturday, the likes of Elon Musk and David Marcus—both members of the so-called [PayPal Mafia](#)—had piled on, and by Sunday [#DeletePayPal](#) was trending.

Figure 3. Paypal news (Paypals-misinformation-misfire-and-what-it-means-for-finance, 2022)

Incident of a policy change that threatens a \$2,500 fine for each infraction of spreading misinformation.

Incident score repercussion

- Drop of 5% in stock market
- Attacking customers free speech rights
- Misleading policies

Score: 43

### 3.4.5 Klarna incident score case study



Klarna Bank is playing defense after its CEO stirred controversy by publishing on LinkedIn the names of hundreds of employees the lender had recently laid off.

Figure 4 Klarna news (Klarna-ceo-fired-workers-linkedin, 2022)

Incident of publishing private content about Klarna employees

Incident score repercussion

- Attacking employees privacy
- Against ethic behaviour
- Against company policies

Score: 29

## 4 RESULTS

After conducting the analyses of the different matters of ESG and ESG scoring, the author discovered multiple things;

First of all, how big the ESG parameters are; when talking about ESG is hard to specify all the single related topics that can affect a business in ESG criteria; the author saw that it was easy to simplify this data, nevertheless, by doing that, the corporations are playing with the transparency of data that a company can show for a future assessment, given that, it can produce a relativity and misleading view of a company.

Secondly, with the rising importance of the ESG scoring for investors, the author discovered that the ESG point of view could be a crucial point to value when an investor chooses where to invest their capital; thanks to this, the author realised that there is an uptrend on how the business treat and implements to their activities the ESG criteria and how different it is from other different kind of investments.

Thirdly, the author identified the importance of the ESG scoring and the different main options from where the scores come from; the author identified the various on the different parameters used by the companies like Morgan Stanley (MSCI), Bloomberg, S&P Global and Refinitiv, thanks to analysing this different ESG scoring business the author had enough knowledge on how to create and incorporate a new ESG scoring based on incidents.

Fourthly, the author realised the complexity that businesses face due to the rising implementation of ESG criteria on businesses; these implementations can range from not only substantial extra costs but can also involve a company restructuring to meet the ESG criteria.

Fifthly, thanks to the final study of the three fintech businesses (Klarna, Paypal and Visa), the author realised that the companies publish on the annual sustainable reports what is only beneficial for them; the author realised that 99% of the points stated on

the annual reports are positive accomplishments, that is why the author created a new ESG scoring methodology where the companies are assessed through the incidents that they have throughout the fiscal year and not the accomplishment that they say they accomplished, the author realised that with this ESG scoring it could face the lack of transparency that the companies produce to improve their score.

## 5 RECOMMENDATION

The author's recommendation is not to implement the hypothetical ESG scoring created in this thesis; the author exposes the businesses' transparency and warns the lecturer of the lack of real visibility that the companies show to the investors/customers; this does not mean that the ESG scoring and ESG criteria are not good assessment criteria. The author agrees to follow and implement ESG criteria; furthermore, the author recommends the usage of the Refinitiv scoring system as being one of the most complete one studied in this thesis.

## 6 CONCLUSION

Given the last information on results, the author answers that, indeed, there is a lack of transparency on the ESG data due to the companies publish their positive accomplishments, which can derivate in a misleading and untrue outcome. Furthermore, the author gives a secondary possibility of hypothetical ESG scoring to fix the problem.

The author analyses three different Fintech companies to have the perfect overview of what information is included in the annual ESG reports.

The author analyses information like the impact of ESG on FinTech and investors to have a clear vision of the problem; furthermore, it analyses different kinds of ESG scoring methods to see if the businesses related to the ESG scoring fix the problem.

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