European Federation of Building Societies
Fédération Européenne d'Epargne et de Crédit pour le Logement
Europäische Bausparkassenvereinigung

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Feedback on the "Principles for the effective management and supervision of climate-related financial risks"

The European Federation of Building Societies (EFBS) is an association of specialised credit institutions (Bausparkassen) promoting the financing of private homeownership. Bausparkassen finance sustainable private housing and energy efficient modernisations and renovations. Based on the cooperative funding idea, Bausparkassen enable asset formation for broad sections of the society and thus contribute to social sustainability goals. Likewise, Bausparkassen ensure access to finance for lower- and middle-income households.

We appreciate the opportunity to provide feedback on the principles and would like to highlight some points that are of special importance to us.

As providers of mortgages, we would like to draw specific attention to the limitations of a one-size-fits-all approach to ESG risk management. The nature of retail business rather points to a product rather than a client-based approach and will heavily depend on availability and standardization of suitable data. The customer base is usually quite homogeneous with little differentiation in terms of ESG aspects. Furthermore, due diligence needs to take into account the size of transaction and the nature, e.g., in a retail context the focus will be on the collateral and purpose of the loan, not so much the client itself. In addition, in particular for collateral it will be necessary that national guidance for external real estate valuations need to reflect ESG over time.

The key driver in retail should be around private housing and mortgages apart from private investments and to a lesser extent consumption. Private housing is a core driver for climate footprint, so the mortgage business will require a specific risk and ESG analysis. Especially in private housing data is scarce. We thus underline for the need and possibility to accept "reasonable proxies" for smaller and medium institutions and also underpin the need for e.g., public registers of EPCs as proposed by the European Commission in the recast of the Energy Performance of Buildings Directive.

For Bausparkassen the liabilities side will also warrant specific reviews, not so much from a climate perspective but rather from the inherent social aspects. The business model of Bausparkassen is closely related to the cooperative idea and has a very focused and unique business model that combines the aspects of reciprocity, helping people to help themselves, asset accumulation and real estate as a long-term investment. Historically, Bausparkassen were founded as savings associations to enable members of their collective to take out low-interest loans to purchase their own home. The collective thought continues to exist in the two dimensions of savings and loans.

UNESCO declared the cooperative idea an intangible world cultural heritage in 2014, justifying this by stating that the framework is based on solidarity, honesty, and responsibility. UNESCO explains that the cooperative idea gives less privileged citizens in particular, new opportunities to participate in society. This idea is also borne by Bausparkassen, because the business model of Bausparkassen is based on the principle of "helping people to help themselves" and in particular supports the lower- and middle-income groups in the acquisition of real estate and the renovation of these. Bausparkassen developed a system that is self-contained and largely independent from the financial market. Regarding the economy Bausparen has a stabilizing effect on the finance market because of its anticyclical impacts.

In general, Bausparkassen as traditional housing finance institutions, are attached in the low-risk lending business. Through the size and the structure of the lending business the institutions are required to address sustainability risks, which play a crucial role in their product development and the maintenance of the product portfolio. Knowledge and consideration of these risks is of great importance for the maintenance of the product portfolio due to the long-term nature and long maturities of home savings and mortgage lending. A large share of the Bauspar business is focused on energy efficient renovations, Bausparkassen are thus to be considered a sustainability driver in the environment of housing finance while contributing to reaching the set climate goals. The necessary measures should be appropriate to not jeopardize the cost-effectiveness of the volume-based and highly automated business. In the current environment of low interest rates, the profitability of Bausparkassen should not be allowed to suffer needlessly.

We regard the examination of sustainability risks as an important task within the institutions. In this context, however, it must be possible to fall back on existing procedures and structures. Within a group, it is therefore right that individual requirements such as reporting systems or governance structures with regard to sustainability risks do not remain additionally the responsibility of the individual group companies.