

FINAL DRAFT – Rapporteur’s Conclusions from EEFIG Plenary 2022

Over two hundred members of EEFIG came together from 4-5th May 2022 to review progress and provide direction for the group’s activities. Given the urgent need to improve energy security and respond to high energy prices, caused by Russian aggression against the Ukraine, EEFIG members are united in agreement that accelerating energy efficiency investment has never been more important.

High-level Context for EEFIG in 2022

High-level representatives from the EU Commission DG Energy and UNEP Finance Initiative congratulated over five hundred contributors to Energy Efficiency Financial Institutions Group (EEFIG) in its close to ten-year track record of policy and stakeholder support to accelerate energy efficiency investments in Europe.

Following COP26, the race to rapidly decarbonise the global economy, to reduce reliance on fossil fuels and all GHG emitting activities, is incredibly challenging and requires the coordinated effort of a wide array of actors across many industries. However, since COP26, the GFANZ umbrella of seven alliances have accumulated \$130 trillion of commitments from across the finance industry for achieving net-zero. Alongside its co-leadership of EEFIG, UNEP FI convenes three of the GFANZ alliances, of which the asset owners and banks are mission critical for EEFIG:

- **The Asset Owners Alliance (AOA)** is comprised of over 70 asset owners with over \$10 trillion in assets with a clear Target Setting Protocol for 2025 reduction targets. Over half of the AOA members have 25% to 30% GHG emission reduction targets already established covering all direct holdings, and these are expected to extend to commercial mortgages, residential mortgages and funds imminently. AOA members are using the Carbon Risk Real Estate Monitor (CRREM) pathways to plot emission reduction trajectories, which is significant as CRREM was one of the forty EC funded Horizon and IEE projects that emerged from and directly support the implementation of EEFIG recommendations in EU Member States.
- **The Net Zero Banking Alliance** brings together 108 banks in a Paris-aligned commitment to achieve net-zero in their lending and investing activities. Collectively representing around 40% of global banking assets, this group is a game-changer and contains over half of the Global Systemically Important Banks. It includes Europe’s ten largest banks; North America’s ten largest banks; six of the largest from Latin America and strong representation from all regions. Several NZBA members have issued their first round of targets, for 2030, for priority sectors, and more are expected this year. As NZBA member banks set their targets in nine critical sectors, including real estate, much of EEFIG’s recent work on risk correlation, data, implementation of energy efficiency first principle and customer demand stimulation will be increasingly useful.

EEFIG’s work for a decade sits in the sometimes-overlooked technical world that sits beneath and underpins many of these high-level commitments. As such it is a clear resource for those financial institutions working with UNEP FI and the UN secretary general’s high-level call to develop stronger and clearer standards for net-zero emissions pledges and to speed up their implementation.

EEFIG’s 2022 Milestones

The last year has been a busy one for EEFIG with the formal publication of the [results of several phase three working groups](#).

1. **“The Evolution of Financing Practices for Energy Efficiency”** was previewed at COP26, and contains a full update of the [landmark 2015 EEFIG lexicon](#) to set the stage for the EU policymaking frame for energy efficiency investments. This report highlights the key 2015 EEFIG recommendations which remain valid and notes positive progress in [Eurostat guidance on the public accounting treatment of energy performance contracts](#); the outstanding

delivery of DEEP - [Europe's largest energy efficiency project database](#); and developing standards for financial institutions' [energy efficiency investment processes](#). The report, further recommends a rapid implementation of the Fit-for-55 and sustainable finance policies tabled in recent years related to energy efficiency; to develop large energy efficiency programmes by segment to facilitate the growth of energy performance contracting and ESCOs for public and commercial buildings and energy-intensive SMEs; to involve private distribution partners to broaden scope of reach (with mention of Mortgage Portfolio Standards as a good tool to engage lenders); and to ensure that public procurement operationalize the energy efficiency first (EE1st) principle.

2. [EEFIG's "Statistical findings on the correlation of credit risk and energy performance in collateralized loans"](#) provides a new statistical analysis of around 800,000 mortgages in four European countries that indicates that loans collateralized by more energy efficient properties are less risky¹, and was reflected in the recent [EBA discussion paper on role of ESG risks in the prudential framework](#). The report documents a large-scale meta-analysis of existing data, evidence, and publications on the increased value of energy efficient buildings. Its meta-analysis also shows that the most efficient properties can attract a market price premium of up to 10% in value, and some 5% in increased rental income, compared to equivalent least efficient or non-rated properties. It also concludes that all financial institutions should tag loan collateral and underlying assets based on their energy performance and analyse their own portfolios to better manage credit risks and capital allocations. Mortgage lenders running IRB models should consider energy efficiency as a risk factor in them.
3. EEFIG is working to **operationalise the energy efficiency first principle in financial institutions** to scale-up energy efficiency investments to meet the 2030 climate ambitions. As a key component in the "E" of ESG, and as a clear mitigation against climate transition risk, as identified through the TCFD framework used by most leading financial institutions, the working group believes that to put energy efficiency first, the organisation needs a clear and functioning sustainability framework. Energy efficiency, by definition, is a facet or component of another energy-related asset (real estate, infrastructure, energy systems etc.), and therefore must be imbedded into the transaction approval and execution processes of each financial institution. A typical project cycle may include eligibility, an impact review at Concept and Final stages, due diligence, safeguards to check that ESG policy standards are met and underwriting or transaction management stages. While different organisations have different investment or deal approval cycles, they tend to have similar components, and while energy efficiency is very situation specific, having targets (eg. Energy intensity/m2 for residential real estate) and benchmarks (portfolio standards) to reference were seen as helpful.
4. Two further linked EEFIG working groups are **monitoring data on energy efficiency investments and finance and looking for ways to unlock greater consumer demand for energy efficiency**. The data working group has looked at surveys, low-level collection of statistical data, the tracking of equipment used to improve energy efficiency, and advanced methods which create detailed models in a very innovative and automated fashion. While bottom-up data can be the most useful, it requires procedures for national, regional and local government budgets, streamlined surveys and programmes of public and private banks and

¹ The new primary EEFIG analysis was conducted using the residential mortgage books of Nationwide Building Society (NBS) in the UK, Allianz in Germany and OP Financial Group, Finland's largest mortgage lender. The sample set was almost 800,000 residential mortgages in these three countries. A forward-looking analysis was undertaken in each case controlling for different borrower credit scores, incomes, loan terms, loan-to-value ratios, along with a range of variables relating to the building and additional controls capturing municipality-level economic and the broader economic indicators. Energy performance data was drawn from a combination of domestic energy performance certificates (EPCs) registers (where available) and proxy models based on energy demand or known characteristics of the building.

agencies. It expects that statistical methods which employ very large datasets and cross-compare multiple sources (both public and private) will quickly be as error prone (or not) as human evaluators. Proprietary databases exist already which assess portfolio climate risk, modelled energy performance and expected energy efficiency classification covering all German buildings and very many in Austria and Spain. Financial institutions that are already concerned by the time and accuracy of public data and existing EPCs are already turning to this method to identify and manage energy performance risk in their portfolios. In parallel, a second EEFIG team is reviewing decision processes in households and enterprises; process for information and awareness raising; renovation value propositions for residential buildings; and demand activation for energy efficiency investments in enterprises. In this context, things that work and best practice examples are being collected, scaling and replication is being assessed as well as how to incentivize deep renovation.

EEFIG's Upcoming Reports and Next Steps

The EEFIG calendar for 2022-23 is full of new reports. In addition to those highlight above, the 2022 Plenary heard the conclusions from the Industry and SME working group, on the point of publishing their findings, as well as those due from a team focused on characterising and monetising the multiple, non-energy benefits of energy efficiency to make them easier to identify and quantify for financial institutions. This latter topic has become especially interesting given the increasing importance of energy security and the leading position of energy efficiency in the REPowerEU action plans which were launched in the weeks following the EEFIG plenary. Further, a separate EEFIG working group will publish a report of energy efficiency finance in the context of the 2021-27 Multiannual Financing Framework. The role of the EIB and blended finance will be highlight in this report, which will help to find ways to look beyond grants and expand the array of public-private financing approaches to delivering energy efficient outcomes in line with the EU Climate and Energy targets.

At the EEFIG Plenary, the future of EEFIG was discussed and a number of members offered suggestions as to how EEFIG could contribute to the rapid delivery of energy savings with financial institutions in the context of REPowerEU. Just weeks after the plenary, the EU 'Save Energy' communication offered a structured roadmap for EEFIG to strengthen its and its members' cooperation on energy efficiency investments with the EU Commission and Member States through its transformation into a high-level European Energy Efficiency Financing Coalition with the financial sector. Among other matters, such a newly enlarged and transformed EEFIG can examine possible additional measures to trigger further private investments, such as – but not exclusively - mortgage portfolio standards for lenders and pay-for-performance schemes, as discussed by EEFIG in its 2022 plenary.

EEFIG's 2022 Plenary heard contributions from the following EEFIG members:

European Commission, UNEP Finance Initiative, ING, KfW, d-fine, Sustainable Development Capital, EBRD, SEAI, EMF-ECBC, EIB, Croatia Energy Inst., DWS, University of Stuttgart, SBCI, VIPA, Societe Generale, CREFC, Aquila Capital, Royal Society EIR Group, Institute for European Energy and Climate Policy, ADENE Portugal, Joule Assets, SkenData, IKEM, Sociedad Tasacion, Swedbank

If you wish to join EEFIG or contribute to its work [please visit the EEFIG website and complete an expression of interest](#).