MSCI ESG Ratings Methodology: Access to Finance Key Issue

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Contents

Introduction

This document provides essential information on the components of the Access to Finance Key Issue to enable users of ESG Ratings to understand how our outputs are determined. Access to Finance is a Key Issue in the Social Pillar of the MSCI ESG Ratings model. Companies are evaluated on their positioning to meet market demand for financial services in historically underserved markets.

For additional details on the MSCI ESG Ratings Model, refer to Section 2, Data, ratings and scores, of "ESG Ratings Methodology."

Exhibit 1: MSCI ESG Key Issue hierarchy

3 Pillars	10 Themes	33 ESG Key Issues
Environmental	Climate Change	Carbon Emissions
		Climate Change Vulnerability
		Financing Environmental Impact
		Product Carbon Footprint
	Natural Capital	Biodiversity & Land Use
		Raw Material Sourcing
		Water Stress
	Pollution & Waste	Electronic Waste
		Packaging Material & Waste
		Toxic Emissions & Waste
	Environmental Opportunities	Opportunities in Clean Tech
		Opportunities in Green Building
		Opportunities in Renewable Energy
Social	Human Capital	Health & Safety
		Human Capital Development
		Labor Management
		Supply Chain Labor Standards
	Product Liability	Chemical Safety
		Consumer Financial Protection
		Privacy & Data Security
		Product Safety & Quality
		Responsible Investment
	Stakeholder Opposition	Community Relations
		Controversial Sourcing
	Social Opportunities	**Access to Finance**
		Access to Health Care
		Opportunities in Nutrition & Health
Governance	Corporate Governance	Board
		Pay
		Ownership & Control

3 Pillars	10 Themes	33 ESG Key Issues
		Accounting
	Corporate Behavior	Business Ethics
		Tax Transparency

Opportunities associated with this Key Issue

- Capture market share in undeveloped or underdeveloped markets.
- Strengthen brand through financial inclusion.

Access to Finance Key Issue Score

The Access to Finance Key Issue Score evaluates the company's level of exposure to and management of opportunities on this Key Issue. The Key Issue Score is based on the Exposure Score and the Management Score using the formula below. The Exposure Score and the Management Score are combined such that the Exposure Score determines the weight placed on the Management Score, ranging from 50% (when Exposure Score is equal to zero) to 100% (when Exposure Score is equal to 10).

$$Key\ Issue\ Score = \left(\left(\frac{EXP_i}{20} + .5\right) \times MGMT_i\right) + \left(\left(.5 - \frac{EXP_i}{20}\right) \times 5\right)$$

Where:

- KI_i is the Key Issue Score for company i.
- EXP_i is the Exposure Score for company i.
- $MGMT_i$ is the Management Score for company i.

Access to Finance Management Score

The Access to Finance Management Score evaluates the company's ability to manage its exposure to opportunities on this Key Issue. It is based on an average of the scores associated with each of the Management Score categories listed below, modified by Controversies. These scores are derived from data points that are scored on a 0-10 scale, with 10 corresponding to best practice and 0 corresponding to lack of management. Refer to Section 3.3, Analyzing risk management, of "ESG Ratings Methodology" for additional details. Sources are company disclosures except where otherwise indicated. The following formula is used to calculate the Access to Finance Management Score - Excluding Controversies:

$$MGMT_{BIO,i} = \frac{PROS_{AFI,i} + DISO_{AFI,i} + PERF_{AFI,i}}{3}$$

Where:

- $MGMT_{AFI,i}$ is the Access to Finance Management Score - Excluding Controversies for company i.
- $PROS_{AFI,i}$ is the Products and Strategy Score for company i.
- $DISO_{AFI,i}$ is the Distribution and Outreach Score for company i.
- $PERF_{AFI,i}$ is the Performance Score for company i.

The following data points, without constituting an exhaustive list, are representative of the inputs to the Management Score and are used in the Management Score calculation:

Management Score category: Products and Strategy Score

- **Extent of involvement in microfinance/microinsurance.**

  Definition: The type of involvement in microfinance or microinsurance. Best practice is for the company to directly provide microfinance or microinsurance products to customers. Involvement may also come in the form of institutional partnerships, investment vehicles, or charitable giving.

Management Score category: Distribution and Outreach Score

- **Innovation in mobile/online distribution channels for financial services.**

  Definition: The company's innovation in mobile/online distribution channels. Best practice is sector-leading innovation in mobile/online distribution targeting underserved demographics. Applies to financial institutions only.

- **Innovation in other alternative branchless distribution channels for financial services.**

Definition: The company's innovation in alternative branchless distribution channels (e.g., correspondents, partnerships with retail stores/post offices). Applies to financial institutions only.

Management Score category: Performance Score

Representative performance metrics:

- Loans to small and medium-size enterprises (SMEs):
    - As a percentage of total lending.
    - SME lending growth rate (percentage year-on-year).
- Business to underserved communities (including rural development).

Controversies

A controversy deduction ranging from 0 to 5 points is subtracted from the overall Management Score, based on the severity and type of controversies facing the company on this Key Issue. The following categories of controversies are used in the assessment:

- Restricted or discriminatory access to products and services.

For more details on how controversies are included in the MSCI ESG Ratings model, refer to Section 3.3.2, Controversies cases, of "ESG Ratings Methodology."

Access to Finance Exposure Score

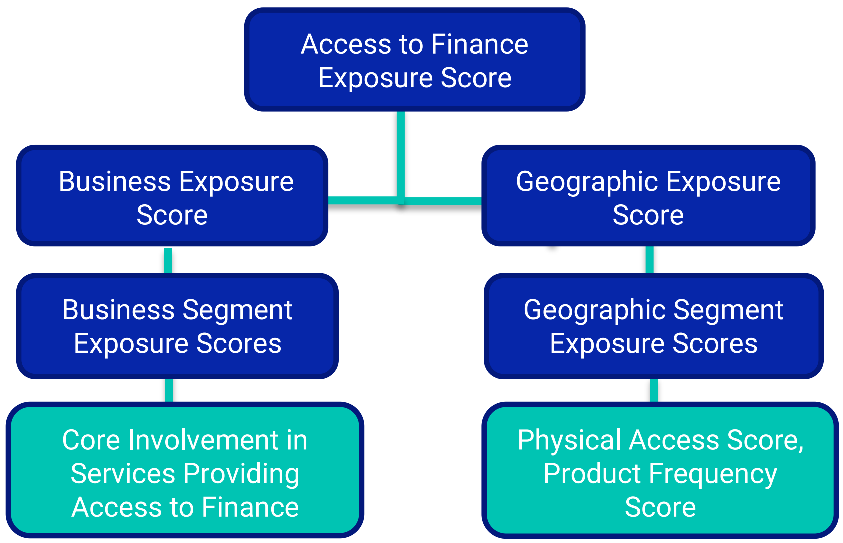
The Access to Finance Exposure Score evaluates the company's exposure to opportunities on this Key Issue. It is based on the Business and Geographic Exposure Scores. The Geographic Exposure Score functions as a multiplier on the Business Exposure Score, with an impact ranging from -50% to +50%. The Business and Geographic Exposure Scores are scored on a 0-10 scale, with 10 corresponding to the highest opportunity and 0 corresponding to the lowest opportunity. Refer to Section 3.2, Analyzing risk exposure, of "ESG Ratings Methodology" for additional details. The following formula is used in the Exposure Score calculation:

$$EXP_{AFI,i} = BUS_{AFI,i}\left(1 + 0.1\left(GEO_{AFI,i} - 5\right)\right)$$

Where:

- $EXP_{AFI,i}$ is the Access to Finance Exposure Score of company i.
- $BUS_{AFI,i}$ is the Business Exposure Score of company i.
- $GEO_{AFI,i}$ is the Geographic Exposure Score of company i.

Exhibit 2: Exposure Score components



Business Exposure Score

The Business Exposure Score is a weighted average of the Business Segment Exposure Scores of a company's business segments. Scores are weighted by the proportion of a company's total revenue in each business segment, using the following formula to calculate the Business Exposure Score:

$$BUS_{AFI,i} = \sum_{j=1}^{n_i} w_{Revenue,i,j} BSE_{AFI,j}$$

Where:

- $BSE_{AFI,j}$ is the Business Segment Exposure Score for business segment j.

- $w_{Revenue,i,j}$ is the weight of business segment j for company i based on the contribution to total company revenue.
- n_i is the number of business segments of company i.

Business Segment Exposure Scores

The Business Segment Exposure Score of a business segment is based on a mapping of the business segment as disclosed by the company to a corresponding business activity. MSCI ESG Research uses the Standard Industrial Classification (SIC) system along with industry-specific adjustments to define business activities. The score associated with a business activity is used to calculate a Business Segment Exposure Score. Each business activity score is determined by a qualitative assessment of whether a business activity provides opportunities to increase access to finance through services such as property and casualty insurance, life and health insurance, reinsurance, asset management or other financial services. Business activities with core involvement in these services will have a higher opportunity in providing access to finance.

Geographic Exposure Score

The Geographic Exposure Score is a weighted average of the Geographic Segment Exposure Scores of the countries and regions in which a company operates. Scores are weighted by the proportion of a company's total revenue in each geographic segment through the following equation:

$$GEO_{AFI,i} = \sum_{r=1}^{n_i} w_{Revenue,i,r} GSE_{AFI,r}$$

Where:

- $GSE_{AFI,r}$ is the Geographic Segment Exposure Score in region r.
- $w_{Revenue,i,r}$ is the weight of total revenues in region r for company i.
- n_i is the number of geographic segments for company i.

For geographic segments disclosed as regions (example: Asia Pacific), a nominal GDP-weighted country aggregation is used to calculate region-level scores, using the following equation:

$$GSE_{AFI,r} = \sum_{c=1}^{n_r} w_{GDP,r,c} GSE_{AFI,c}$$

Where:

- $GSE_{AFI,c}$ is the Geographic Segment Exposure Score of country c.
- $w_{AFI,r,c}$ is the specific weight of country c within region r.

Geographic Segment Exposure Scores

The Geographic Segment Exposure Score is determined by a simple average of the Physical Access Score and Product Frequency Score.

$$GSE_{AFI,c} = \frac{PA_c + PF_c}{2}$$

Where:

- PA_c is the Physical Access Score in country c.
- PF_c is the Product Frequency Score in country c.

The Physical Access Score is determined by a simple average of the quantities of commercial bank branches and automated teller machines (ATMs) per 100,000 adults and, separately, the quantities of commercial bank branches and ATMs per 1,000 km^2 area for each country:

$$PA_c = \frac{CB_{c,population} + ATM_{c,population} + CB_{c,area} + ATM_{c,area}}{4}$$

Where:

- $CB_{c,population}$ is the Commercial Bank Branch per Population Intensity Score in country c.
- $ATM_{c,population}$ is the ATMs per Population Intensity Score in country c.
- $CB_{c,area}$ is the Commercial Bank Branches per Area Intensity Score in country c.
- $ATM_{c,area}$ is the ATMs per Area Intensity Score in country c.

The Product Frequency Score is determined by a simple average of the quantity of commercial bank accounts and loans per 1,000 adults, deposits per 1,000 adults, percentage of adults with a credit card, percentage of adults using mobile money, percentage of adults paying personally for health insurance, and insurance premiums per capita:

$$PF_c = \frac{CBA_c + CBL_c + ACC_c + AMM_c + HIP_c + IP_c}{6}$$

Where:

- CBA_c is the Commercial Bank Accounts Score in country c, determined from the quantity of commercial bank accounts per 1,000 adults.
- CBL_c is the Commercial Bank Loans Score in country c, determined from the quantity of commercial bank accounts per 1,000 adults.
- ACC_c is the Adults with a Credit Card Score in country c, determined from the percentage of adults with a credit card per country.
- AMM_c is the Adults use Mobile Money Score in country c, determined from the percentage of adults using mobile money in the past year per country.
- HIP_c is the Out-of-Pocket Health Insurance Score in country c, determined from the percentage of adults paying personally for health insurance per country.
- IP_c is the Insurance Premiums Intensity Score in country c, determined by the insurance premiums per capita per country.

Data Sources

The following sources are used to determine the Access to Finance Exposure Score:

’International Monetary Fund (IMF), World Bank, Consultative Group to Assist the Poor (CGAP), SwissRe, World Development Indicators, Refinitiv, MSCI ESG Research, company disclosures.

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