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FinGreen 2.0

Exploring the role of Climate Fintech in creating a more sustainable future

siddhi.thakkar@globallogic.com

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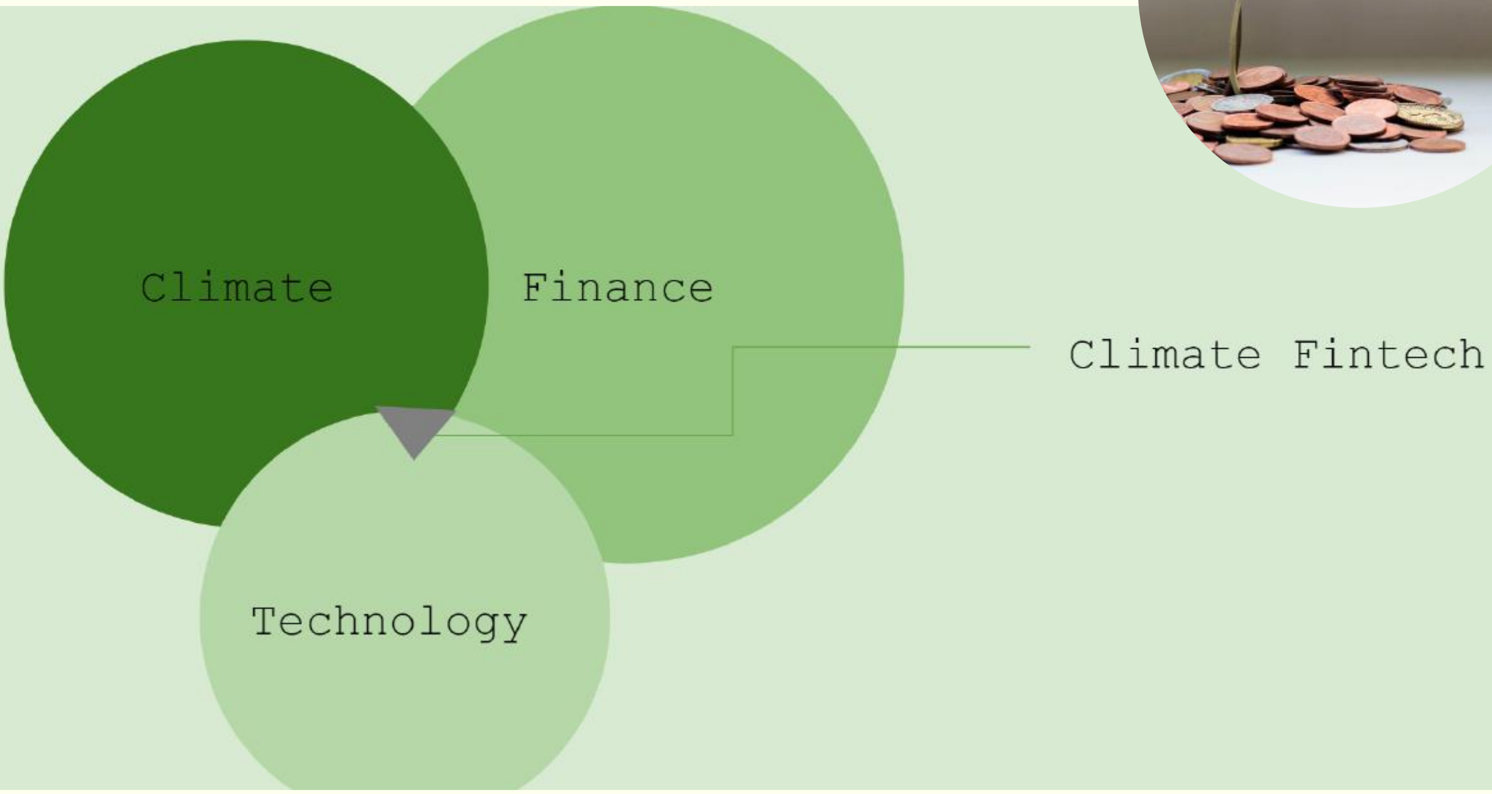
Introduction

Fingreen refers to the **formation of a green economy**, the foundation and growth of which is actively managed by the financial services industry. The concept is crucial since everything - starting from fighting climate change to building resilience against already occurring impacts- **requires a substantial capital investment.** Apart from the inclusion of traditional financial services, Fingreen 2.0 **focuses on the use of emerging fintech trends** to create a more sustainable future.

When it comes to defining the areas that fingreen encompasses, several aspects of fintech come into play. One of those, called **Climate Fintech, is at the crossroads between climate, finance and technology.** While Fintech combines finance and technology to improve financial processes, Climate Fintech is about their application in **decarbonizing the planet.** As we aim to be carbon neutral by 2050, this whitepaper examines how fintech powered innovations can help to make our financial system more eco-friendly.



Climate

As seasoned innovators, fintechs are better positioned to develop new business models that would delight our environmentally conscious customers.

Finance

There is a need to drive mass funding towards environment friendly solutions by making it a popular investing habit and speeding up commercialization.

Technology

Efficient use of technology holds the ability to accelerate actions on climate change by helping us actively control, reduce and track carbon emissions.

The convergence *of climate and finance*

The global economy is under severe economic and financial risk from climate change. Going by the current trend, **more than 20% of the world's GDP will be jeopardized by the year 2100.** The effects of global warming are already being felt widely across economies, communities, people, and their ecosystems.

The current path of economic growth is having a devastating and irreversible impact on human life. If the objectives set forth at COP26 or other comparable forums are to be met, this will have a **huge impact on the financial markets.** To incorporate risks and possibilities associated with climate change into plans, businesses and financial markets will need to adapt.

In order to build a climate-resilient economy, investment in climate fintech must be analyzed from two angles:

Fintechs that support mitigation

·This refers to businesses that **enable mitigation** of disastrous climate changes and contribute in achieving the global climate goals.

Fintechs that support adaptation

This refers to **financing the adaptation initiatives** that are expected to help us in getting adjusted to current or expected effects of climate change.

How can *climate fintech* help?

The way the climate fintech industry is poised to take advantage of resources at their disposal, **they showcase a hope** in reorganizing the financial sector to benefit people and the planet. Owing to supporting government policies, many climate fintech businesses are using digital technologies to unlock the potential of financial services industry in tackling climate change.

Raising awareness

Many institutions are raising awareness about the environment by **rewarding the consumer** excessively if they spend money on environmentally-conscious brands.

Risk assessment

Some new age platforms are also using **artificial intelligence to predict climate-linked financial losses** in order to enable adequate insurance.

Key focus areas

A sustainable future can only be built on a financial system that allows and enables rapid transition of key industries that it beholds. Amongst the widespread landscape of financial services, following sectors have showcased an **immense capability of accelerated growth** via eco-friendly business models.

Payments

The way end consumers spend their money has a direct impact on carbon emissions. Therefore, people must be equipped with the tools they need to **make educated decisions** and share findings within their circle of influence. While digital payments are inherently **less carbon-intensive than traditional methods**, eco-friendly payments are also becoming a big thing in the industry.

Let's take a look at three ways through which digital payments can help to ease the effect on environment:

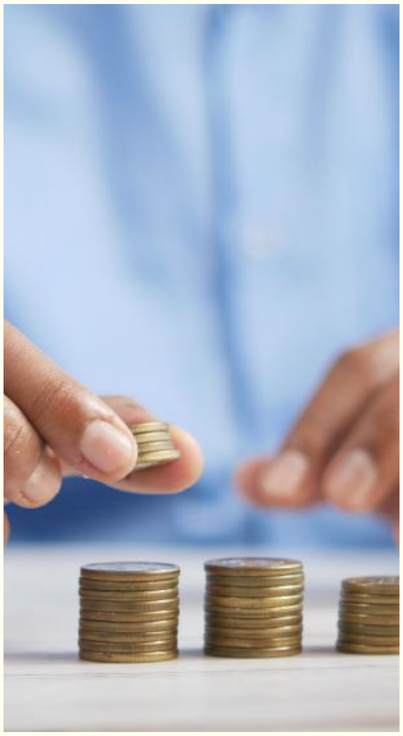
- Going cashless would save the physical resources needed in the **production and distribution of notes.**
- Digital payments would also help us get rid of ATMs, which **silently use up tonnes of generated electricity** to churn out cash at any time.
- With digital transactions, usage of debit and credit may also recede to the background eventually **bringing down the use of plastic.**

Banking

Banks are wonderfully positioned mediators who have the **power to influence the financial flow** from multiple angles. By tracking the carbon generated when producing banking products and reducing the usage of paper, banks can **contribute to creating a more sustainable future.**

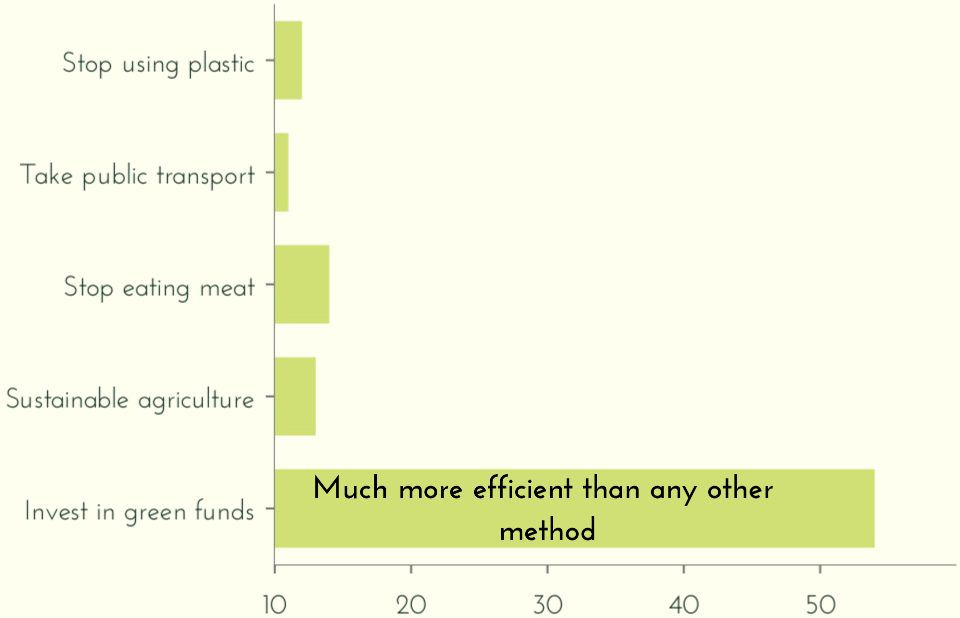
Investing

Sustainable investments are gaining popularity among investors of all sizes for a variety of reasons, **including the desire to capitalise on perceived opportunities** for higher financial returns or to avoid risks associated with various environmental, social, and governance issues. To realise its full potential, such investments must **customise its approach for individual investors**, concentrating on the issues that are most important to them. If we are able to achieve that, significantly more money will enter the space.



Ways to lower your carbon footprint

Source: Climate Fintech Report



ESG criteria is used to assess the sustainability effect of an investment. An ESG score generally consists of the following components:

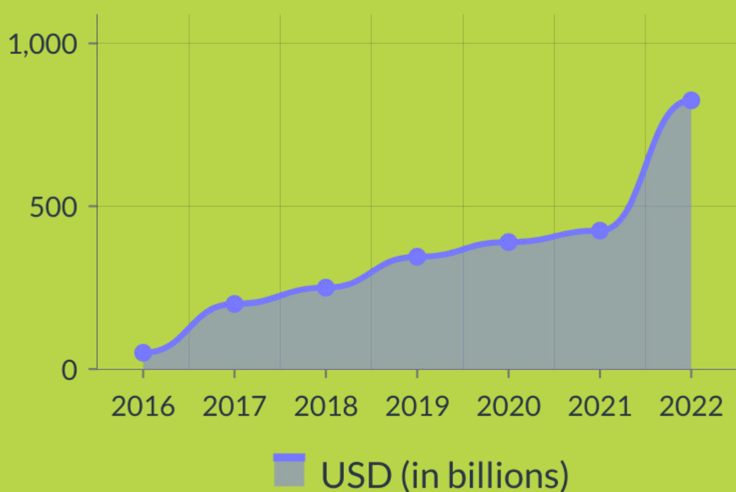
- **Environmental:** The environmental effect of an organization, such as its carbon footprint, & technology it employs in dealing with it.
- **Social:** The social impact of an organization in pushing for socially good habits like diversity and inclusion, health, waste management etc.
- **Governance:** This aspect determines how an organization is governed to ensure it has long running positive impact on society.

Lending

Green loans or sustainability-linked loans are the ones that **provide businesses with the needed capital support** for meeting their climate related goals. The borrower is encouraged to hold aspirational goals, and the **degree of improvement is linked to the terms of financing.** To be considered a green loan, it must be structured in accordance with the **Green Loan Principles,** which serve as an international gold standard.

Sustainability loan market has been growing

Source: UN Climate Finance Report



The sustainable loan industry has expanded tremendously in recent years, driven largely by the **widespread use of general-purpose sustainability or ESG-linked loans.** These loans enable borrowers to indicate their climate related commitments to external stakeholders in a credible way. Having said that, the lenders need must be **wary of the possibility of greenwashing.** Transparent disclosures on contract clauses usually helps to alleviate such worries.

Regtech

Regtech can be defined as a branch of fintech that helps to achieve goals enforced by regulatory authorities. Below are some examples that showcase how it could be applied in climate fintech:

- To counteract greenwashing and other fake news on social media
- To establish a common standard of reporting on climate goals that includes guidelines for data collection and analysis.
- To use blockchain for land registration in order to decrease the risks for investing in green projects
- To use data technologies, such as cloud & machine learning for monitoring climate risk
- To use statistical tools, such as scenario analysis, simulation and stress testing to enhance risk management & governance.
- To improve accuracy, consistency and transparency in climate goals tracking.

Barriers to actions

Given the current trend, governments and corporations are under great pressure to make substantial progress on climate related efforts. However, their ability to definitively achieve set targets is marred by the following barriers:

Commitment:

Although a growing number of organizations have been making a net-zero emission commitment, the quality of those promises fall short. Only a few entities have tied their offset plans to permanent removal of carbon emission techniques.

Reporting:

Since there are no worldwide reporting standards, organisations often employ a variety of approaches in collecting & analyzing their data. Because of these personalised procedures, it might be difficult to trust the validity of data.

Actionability:

The process of transforming data into insights required for decision-making is hard and time-consuming. New solutions that can allow this process are still in their infancy with organizations having little interest in integrating them.

Conclusion

The climate fintech industry is currently viewed as a strong pillar in our efforts for positive environmental change. In this report, we delved deeper into the term's definition, its applications in various fields as well as its rising importance. As we understand the financial services sector today, companies that continue with business as usual will eventually face a variety of emerging risks.

We need to enable organisations and people to make spending, saving, and investing decisions that prioritise the environment. Although still in their early stages, newly discovered business models appear to be on the right track to improve accessibility, efficiency, openness, and accountability of our climate goals.

Climate Risk Management

- sust
- JUPITER — Predicting risk in a changing climate
- Cervest
- FUTUREPROOF

Reporting

- diginex
- earthbanc
- Diligent
- .planetly by OneTrust

Banking and Investing

- OpenInvest
- ethic.
- bunq
- Aspiration

Having said that, the road ahead is not going to be easy. Therefore, a herculean amount of effort is needed to transform the current ecosystem into a set of climate-concious products and services.

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