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COULD YOUR SPECIALIST L&D KNOWLEDGE BE THE KEY TO UNLOCKING THE GREEN FINANCE OPPORTUNITY?

An Alpha Development paper
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Driven by government-led decarbonisation strategies around the world, investment in renewables such as wind, solar, and hydroelectric power is surging. As a result, there is a growing demand for “green” financial services in sustainable lending, carbon and emissions trading, and sustainable bond issuance.

At the same time, there is increasing regulatory pressure – both governmental and from industry bodies such as GFANZ and the Basel Committee on Banking Supervision (BCBS) – for banks to ensure their credit portfolios are on a recognised, achievable, and transparent pathway to net zero.

But, while there are already several leading standard-setting institutions in this market, there is also a broad lack of comparability and knowledge gaps that need to be addressed.

> “ While it would be unreasonable to expect L&D leaders to be experts in the topic of sustainable finance, they are charged with ensuring people across their institution have the skills necessary to help clients navigate this complex domain. ”

All of this represents an opportunity for learning and development (L&D) within banks and financial services to close those knowledge gaps. While it would be unreasonable to expect L&D leaders to be experts in the topic of sustainable finance, they are charged with ensuring people across their institution have the skills necessary to help clients navigate this complex domain.

Could your specialist knowledge be the key to unlocking the green finance opportunity?

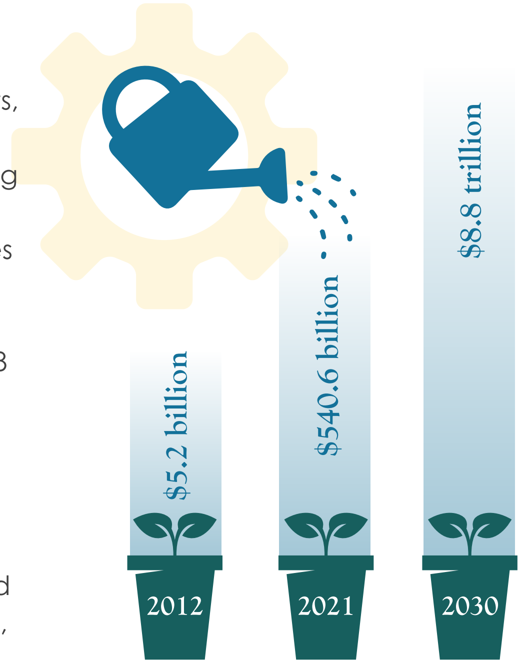
LACK OF EXPERIENCE AND EXPERTISE

The banking industry is taking the issue of sustainability very seriously. Since 2019, the UN Principles for Responsible Banking – described as the world’s foremost sustainable banking framework – have been signed by the 300 largest banks globally, between them responsible for 45 percent of all global banking assets. The demand for sustainable banking clearly exists.

Global borrowing through green bonds, loans, and initial public offerings targeting green projects, swelled to $540.6 billion in 2021 from $5.2 billion in 2012 according to The CityUK (based on Refinitiv Workspace data). McKinsey goes further, estimating the global addressable market for zero emission capex will be worth $8.8 trillion by 2030. This needs to be financed... sustainably.

As the market for sustainable finance grows, though, so too does the need for regulation and oversight. The BCBS, for example, recommends that banks identify, measure, and monitor their portfolios’ climate risk. Therefore, how and to what extent a bank can implement net zero banking depends on its ability to assess every client, assess their pathway, and set an appropriate risk appetite. And this implies a reset in traditional risk management, financial, and relationship management skills.

But many people in the industry don’t have the necessary expertise and experience to assess whether a net zero pathway is feasible, let alone initiate the strategic conversations with clients that can uncover this information.



OVERWHELMING PACE

Sustainable finance is broader in scope than "conventional" finance, covering a range of topics including greenhouse gas emissions, health and safety regulations, labour standards, waste and pollution, and the circular economy. To be a leader in this market - as measured by market share, revenues, profit, and influence - therefore requires a significant level of specialist knowledge that is part of a bank's competitive DNA.

But, as sustainable finance becomes increasingly mainstream, this requirement can prove to be an impediment to institutions' growth ambitions. Many people in the finance industry simply lack the knowledge needed to understand the products, technologies and markets and advise clients accordingly. If banks and asset managers hope to benefit from this growth – or comply with the regulations surrounding it – they need to significantly broaden their skills base.

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Indeed, sustainable finance is sometimes perceived as something of a burning platform. It can be quite overwhelming for anyone caught in the middle of the continuous drumbeat of announcements – of new product categories, new policies, new industry initiatives, and more. It's perhaps unsurprising, then, that without the right expertise or experience, many can find it hard to know how to use the fire on the platform to lead change, to know whether they're doing the right thing, and to know what they need to do. This is an area that can – and should – be addressed by L&D.

MAKING THE RIGHT CONNECTIONS

For L&D teams to say they need training in sustainability, is like saying they need training in finance. Both are broad, multi-layered bodies of knowledge; there are many skills that need mastery, and many different approaches to achieving lasting competency. Delivering an awareness of sustainable finance is unlikely to be sufficient to deliver a bank strategy that extinguishes the challenge of the burning ESG platform.

THE DANGERS OF THE SILO

Today, such knowledge is typically held in the ESG silo. There might be an ESG advisory group within the bank, but it's likely that the ESG team is not integrated into the Three Lines of Defence risk organisation. Consequently, there won't be enough resource to service all the different lines of business and their channels to market. Banks should recognise that the regulatory ecosystem is now fully formed.

THE NUDGE AND THE GAP

Banks and "Shadow Banks" (including private debt funds) should recognise that the principles of climate compliance are in place. If this policy "nudge" is ineffective, first markets will enforce it through pricing or (and then) ultimately governments will enforce it, by law. This is the gap. Banks can fail to heed the nudge and become a laggard. Other competitors will lead and gain market share and profit from first-to-market margins. If your bank misses the nudge, then its response to climate banking will lack cohesion and impact. So, it's vital to connect ESG experts with L&D teams and business lines at the earliest opportunity, to support the implementation of sustainable finance.

> "...it's vital, then, to connect ESG experts with L&D teams and business lines at the earliest opportunity, to support the implementation of sustainable finance"

L&D teams can't be expected to be the experts in the room. They can, however, help their stakeholders navigate this broad new subject, pointing them towards appropriate sources of information, guidance, and expertise.

Renewable energy and "green" financial services are big business opportunities for financial services institutions, but they can only be accessed if banks and their clients comply with the new risk tolerances and regulations that society expects, and which governments are mandating. That demands a workforce with a new mindset and new skills to help business and society to finance and implement sustainability.

Brian Wilkinson

A former investment banker with a career that was founded on Market and Sector Research Analysis for Cash Equities, Equity Capital Markets and Corporate Finance. Brian has a deep knowledge of sell-side origination and buy-side investors and uses this to design training that employs sound analysis, methods, and his market experience to produce training that is on point and relevant to new entrant banking professionals. Having worked in secondary and primary markets for lending, fixed income and equities, Brian ensures that Alpha Development's technical training enables the young professional to think analytically, to respect market context, be wary and aware of re-packaged "innovation" and to understand the commercial drivers of their specialisms. Brian draws on a wide and deep experience of working with and analysing financial institutions, software, specialist chemical, engineering, resources, and engineering enterprises in primary markets and as a senior research analyst connected to asset managers and buy side analysts.

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Learn how we can help you prepare your organisation for success in the fast-moving world of sustainable finance.

About Alpha

Founded in 2003, Alpha is a specialist Early Careers, Sales, Management & Leadership training provider for blue-chip financial services institutions (incl. the world's top Investment Banks). Alpha's USP is its ability to design and deliver complex global training programmes at scale, with insightful content and a partnership approach to driving value for its customers. Alpha specialises in the delivery of complex global financial training programmes, supporting investment banking and asset management L&D departments in both the design and delivery of training.

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