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Reducing the environmental impact of financial services must become a norm

Nearly three-quarters of customers are more likely to choose a bank with a positive social and environmental impact. What can't be measured is often neglected. "On average, one person in Europe is responsible for the release of around 6 tonnes of CO2 into the atmosphere each year."

This data comes from a recently released white paper published by *Connect Earth*, an environmental data company that built an API toolkit to measure the carbon footprint of consumers and businesses, using spend-based transaction data. That number, however, could have been higher – in the US for instance, it comes all the way up to an average of 15 tonnes of CO2 per person a year.

While consumers want to have access to more information that can help them make more sustainable choices, almost half of them point out that they do not have enough data to adopt a more sustainable lifestyle. This trend is particularly prominent in banking.

Taking climate action by making carbon-conscious choices every single day is particularly significant for consumers representing Millenials and Gen Z, the generations that stand out for climate change activism. And while it is 71 percent of users in general who are more likely to choose a bank with a positive social impact, it is almost nine in ten Millenials who are interested in investments that address climate change, we learn from Connect Earth's white paper "*The Power of Carbon Emissions Data*."

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In the past years, changes in consumer demand and investor focus have pushed businesses to step up their ESG game. Further pressure is now being applied as new regulations and government legislation are being put into place. When it comes to the financial sector, the SFDR has already put banks in the EU under pressure to report and reduce their emissions. In Canada, the government stated in the 2022 budget that mandatory carbon emissions reporting for federally regulated financial institutions will start in 2024. The SEC has outlined similar plans for the US, aiming to introduce mandatory carbon emissions reporting for listed companies starting in the fiscal year 2025.

With these regulations and legislative changes in mind, reaching Net Zero requires not only carbon removal and offsetting from the financial sector but most importantly carbon tracking and reduction.

Reducing emissions and financial risk

Understanding one's carbon footprint is a crucial first step of climate action. By accessing the right information, consumers and businesses are enabled to take appropriate action to reduce their environmental impact.

"Measuring and reducing carbon emissions is no longer just an environmental question, it is also a financial question," says *Alexander Lempka, cofounder and CEO at Connect Earth*. "Regulation and legislative changes make it increasingly important for consumers and businesses to understand how they can reduce their emissions, and as a result, reduce their financial risk."

Connect Earth's solution helps financial institutions offer their customers transparent insight into the climate impact of their daily spending and investment decisions. It also enhances disclosure of financial institutions' carbon footprints across value chains following regulatory tailwinds such as the SDFR and other incoming regulations, a majority of which are based on the TCFD framework adopted globally.

Carbon reduction is the most important step in the sustainability journey. However, inevitably there will be unavoidable emissions for a business, which is where carbon credits come into play.

The utilisation of carbon credits

Including meaningful sustainable practices into business offerings is a growing trend that is reflected in the number of emerging startups dealing with greenhouse gas emissions, making climate action a part of every business, no matter the size or sector. Patch, a company providing an increasing cohort of carbon credit buyers with access to carefully vetted climate action projects across six continents, is one of them.

“The science is clear – to rebalance the planet we need to deploy deep emissions reductions as well as carbon removal at scale,” says Brenna Spellacy, CEO & cofounder at Patch. “Corporate emissions reductions are absolutely essential, but companies should not wait to also get started supporting the development of carbon removal technologies.”

The future of sustainability in banking

Financial institutions are responsible for the emissions caused as a result of their financing. For most banks, the financed emissions can be up to 700 times larger than their operational emissions, according to a recent report by the CDP. Banks are therefore incentivised to measure and reduce their portfolio’s carbon footprint. Not doing so puts the bank at a severe threat of missing Net Zero targets.

“The decarbonisation of the financial sector is underway, driven by active and incoming regulations, forcing financial institutions and their customers to measure, reduce and report their carbon emissions,” says Alexander Lempka. “Reporting your carbon emissions will be as important as reporting your financial performance. As a matter of fact, both will go hand in hand in the very near future.”

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