

Financial Institutions and System

Week 13: ESG and Sustainable Finance: The Role of Financial Institutions in Promoting Sustainability.

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Agenda

1. ESG and Sustainable Finance: The Role of Financial Institutions in Promoting Sustainability
2. Class Activity

1. ESG and Sustainable Finance: The Role of Financial Institutions in Promoting Sustainability

Introduction: What is ESG and Sustainable Finance?

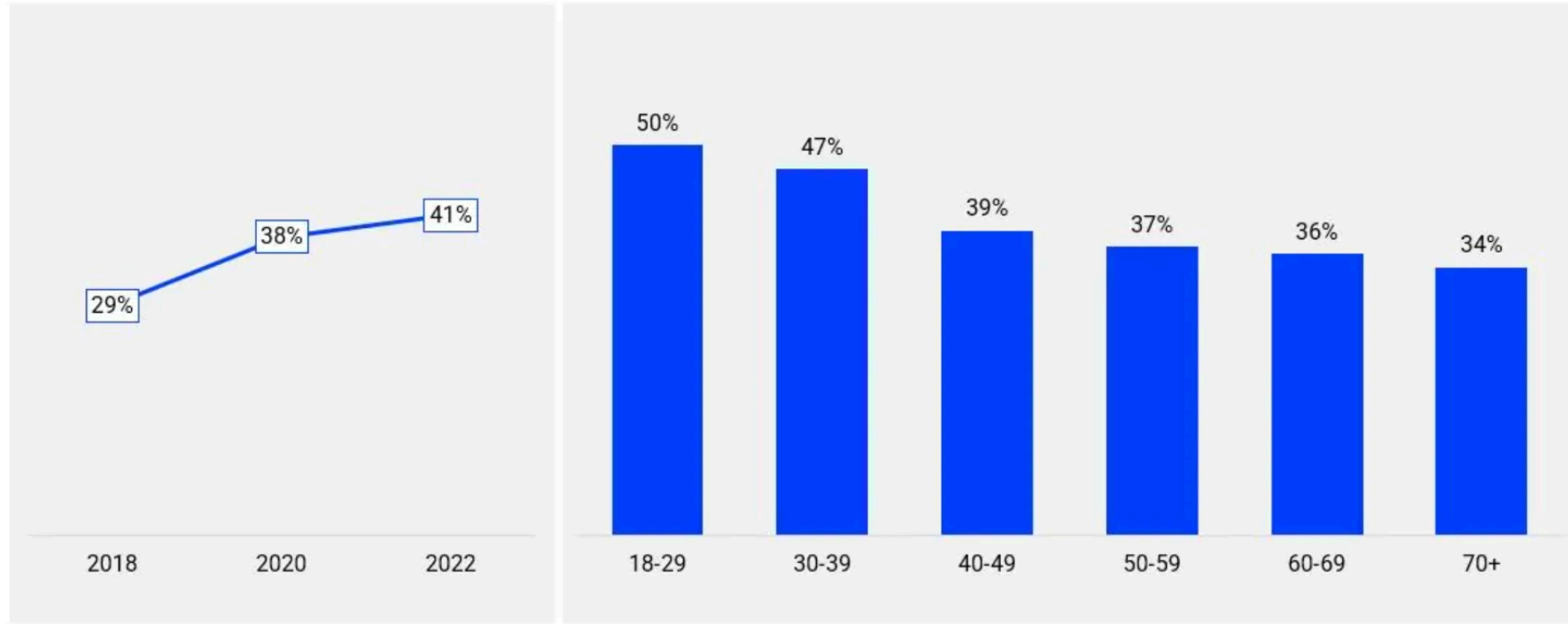
- **ESG:** Environmental, Social, and Governance criteria used to evaluate corporate behavior
- **Sustainable Finance:** Financial activities that consider ESG factors to support long-term economic and societal well-being

"Sustainable finance integrates environmental, social, and governance considerations into financial decision-making, aiming to balance economic advancement with ecological preservation and social justice."

Climate change = stress

Climate change is a source of stress

% of US households that agree



RFI GLOBAL

Source: RFI Global, MacroMonitor US Households Study

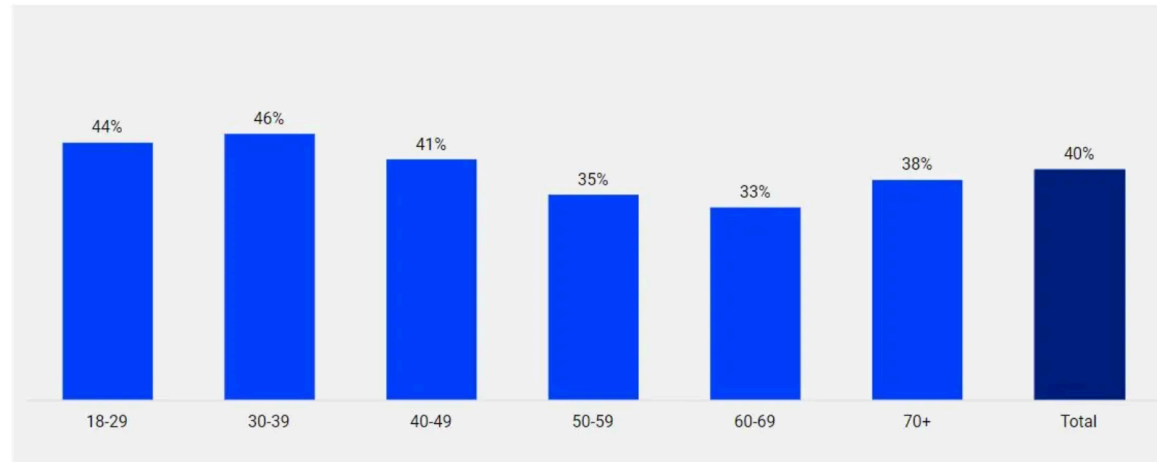
Source: RFI Global, MacroMonitor US Households Study

Why ESG Matters in Finance

- Reputational risk reduction (e.g., scandals, greenwashing)
- Long-term financial performance
- Rising regulatory demands (EU taxonomy, SFDR)
- Societal expectation: 40% of U.S. households would sacrifice some return for ESG-aligned investments

I would be willing to sacrifice some return to invest in companies that reflect my values

% of US households that agree



RFI GLOBAL

Source: RFI Global, MacroMonitor US Households Study

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ESG Principles Breakdown

Environmental

- Climate risk management
- Green investments
- Sustainable resource use

Social

- Financial inclusion
- Labor rights
- Community development

Governance

- Transparency and disclosures
- Anti-corruption
- Board diversity

ESG Integration: Methods Used

- **ESG Ratings:** Evaluate ESG performance across firms
- **Impact Investing:** Intentional investments generating measurable societal benefits
- **Green/blue Bonds & Loans:** Fund environmentally beneficial projects
- **ESG Indexes:** Used as benchmarks or to create ESG-focused portfolios

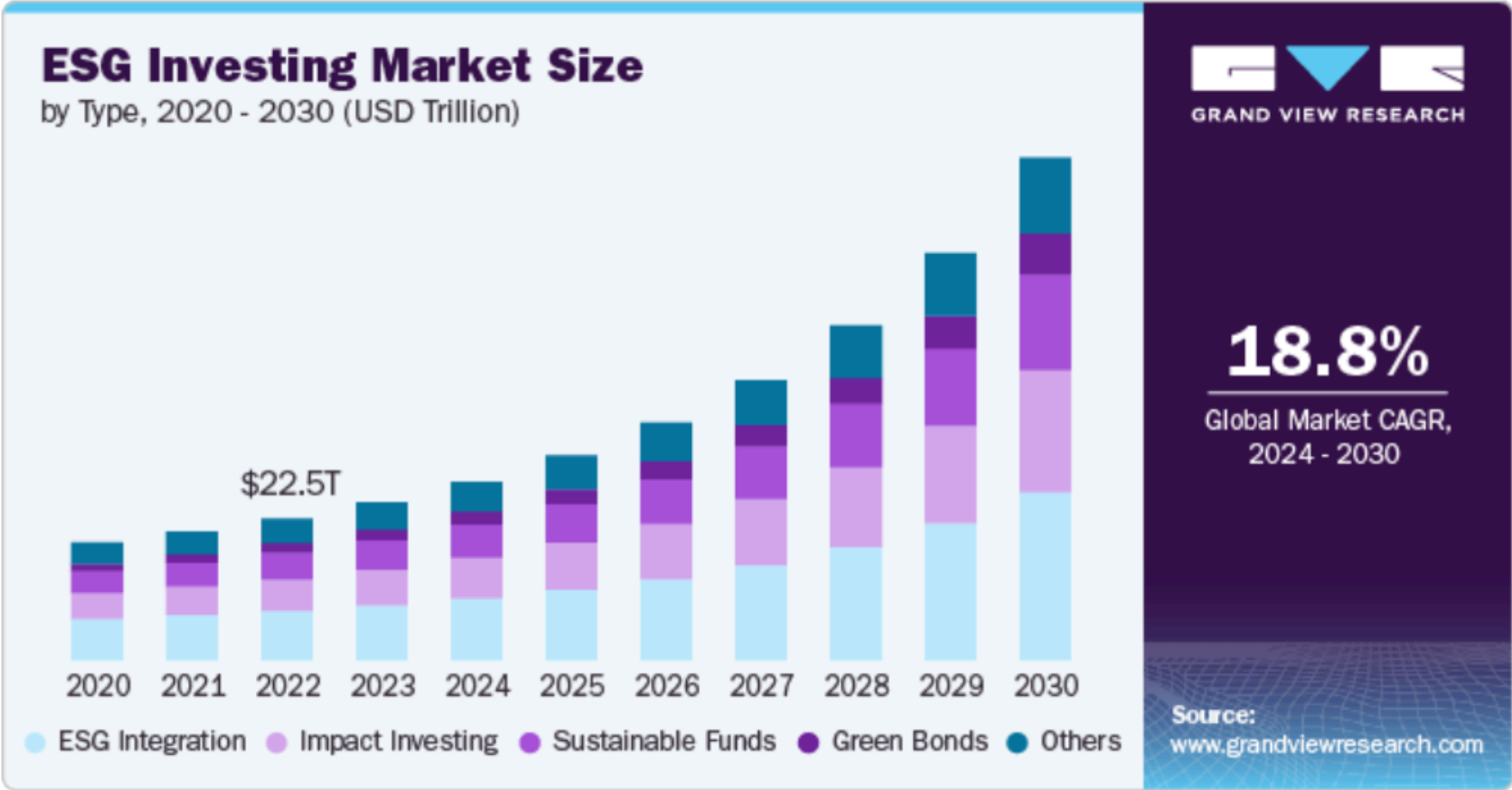
ESG Metrics in Practice

ENVIRONMENTAL	SOCIAL	GOVERNANCE
GHG emissions	Employee Diversity & Inclusion	Cybersecurity
•Amount of Scope 1, 2, and 3 emissions	•Percentage of gender / racial or ethnic group representation for management and employees	•Number of data breaches, percentage breaches involving personally identifiable information, number of users affected
Energy management	Labor practices	Business ethics
•Total energy consumed, percentage grid electricity, percentage renewable electricity	•Percentage of active workforce covered under collective bargaining agreements	•Amount of net revenue in countries that have the twenty lowest rankings in Transparency International's Corruption Perception Index
Waste management	Employee health and safety	Business Model Resilience
•Total weight of waste diverted from disposal	•Total recordable incident rate	•Amount of material recycled, composted, and processed as waste energy
Water management	Pay equity	Remuneration
•Total water consumption from all areas with water stress	•Ratios of standard entry level wage by gender compared to local minimum wage	•Annual total compensation ratio of CEO to median for all employees

- ESG integration varies across sectors
- Disclosure standards: GRI, SASB, TCFD
- Governance typically has clearer measurement frameworks than social or environmental dimensions

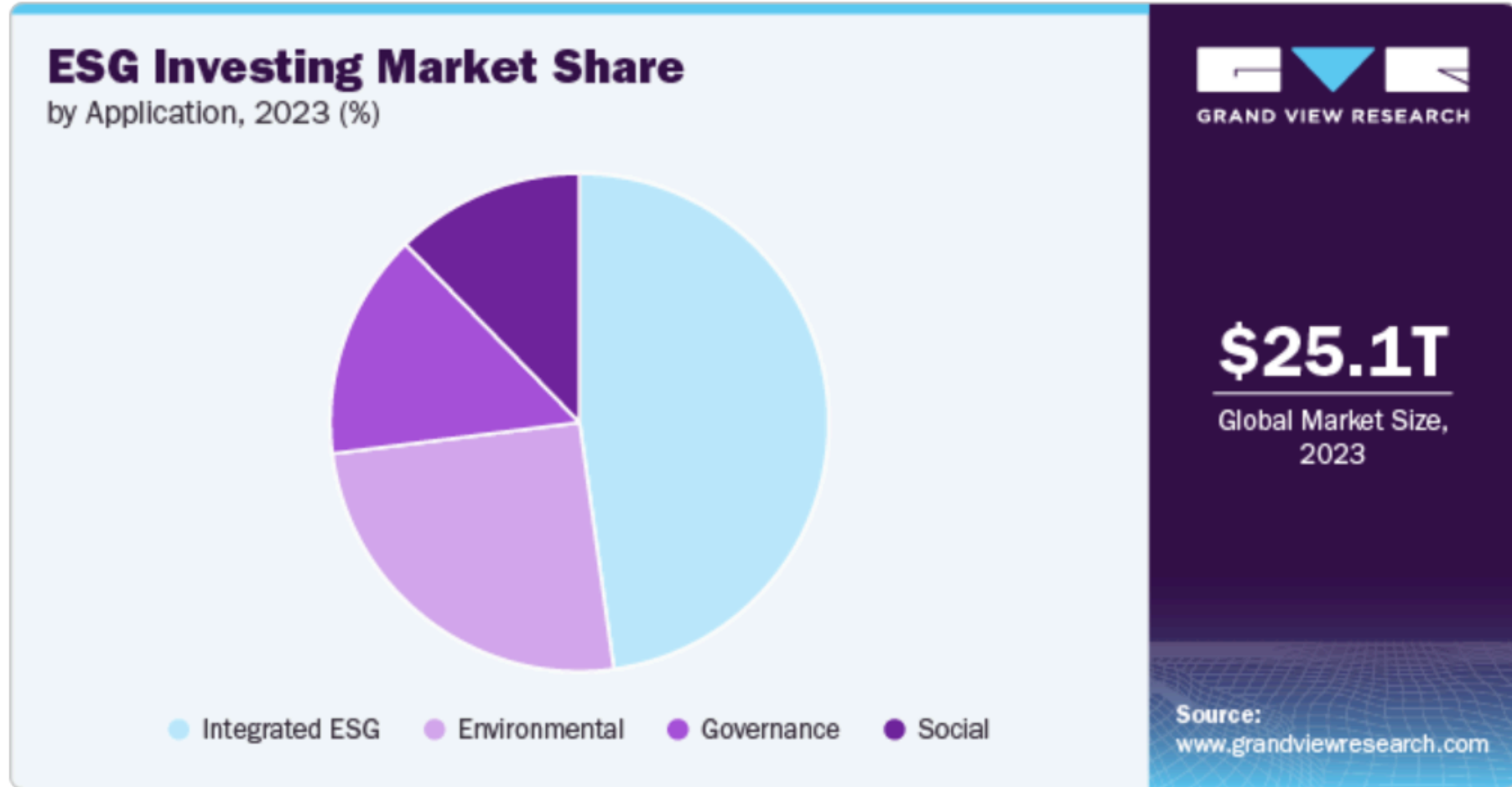
Source: Novisto

ESG Investing Market Overview



Source: Grand View Research

ESG Investing Market Overview (cont.)



Source: Grand View Research

Investor Landscape in ESG

- **Institutional Investors (55.7%)** dominate ESG investing due to risk management and fiduciary duty
- **Retail Investors** gaining ground via ESG-themed ETFs and robo-advisors
 - | Online platforms and fintech apps democratize ESG investing for individuals

Financial Institutions as ESG Catalysts

Banking Sector

- Green deposits
- Sustainable infrastructure financing
- Transition financing for carbon-intensive sectors

Investment Sector

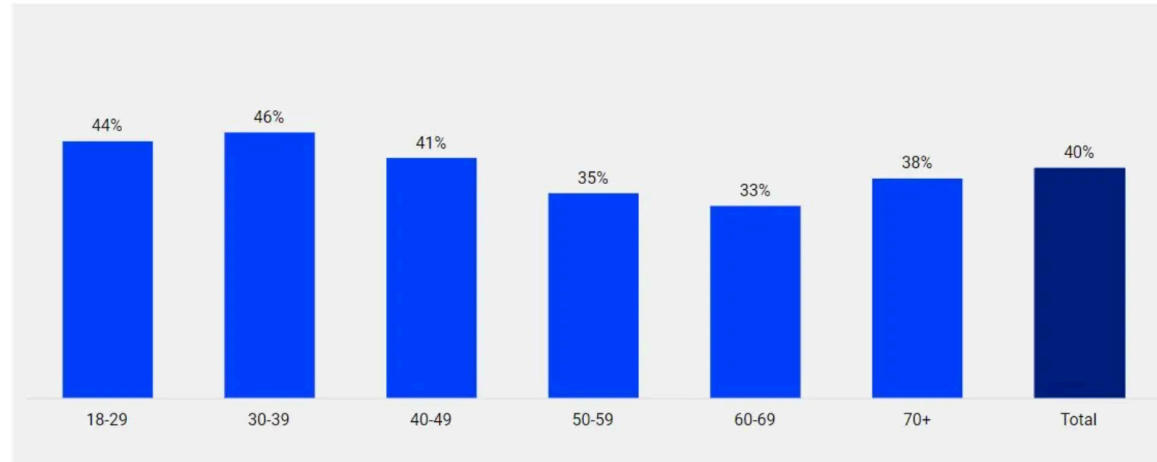
- ESG ETFs and mutual funds
- Stewardship and shareholder engagement

| JPMorgan, BlackRock, Bank of America are leading adopters

Consumer Expectations and Sentiment

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% of US households that agree



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- Younger investors (<40) show stronger preference for ESG
- ESG values shape client loyalty and product design
- Transparency and social impact are now competitive advantages

Global ESG Policy and Practice Trends

- Rise of climate-related financial risk disclosures
- EU Sustainable Finance Disclosure Regulation (SFDR)
- Sovereign green bonds (India, EU, others)
- Global ESG market estimated at \$35 trillion+ assets under management

ESG adoption is now seen as essential to financial and economic stability

Case: ESG Crisis and Recovery

COVID-19 impact:

- ESG initiatives deprioritized during crisis
- Pandemic highlighted need for resilient, inclusive systems
- Renewed post-pandemic focus on ESG: climate risk, labor fairness, digital equity

ESG in Central Banks and Regulation

- **ECB**: Promoting transparency on ESG-linked risks
- **RBI (India)**: Draft Disclosure Framework on Climate-related Risks (2024), Green Bond issuance
- **NGFS**: Global platform for green central banking
- **ESG Reporting**: Alignment with GRI, TCFD, EU CSRD

Regulatory clarity drives better ESG integration and accountability ESG in financial regulation is becoming mandatory, not optional

Summary & Discussion

- ESG is reshaping how banks and asset managers operate
- Regulation, data, and consumer pressure drive ESG adoption
- Financial institutions play a central role in steering capital toward sustainability
- ESG is not just risk mitigation—it's also opportunity creation

Q&A and Reflection

- What is the biggest challenge to ESG integration?
- Which ESG factor (E, S, G) is most critical in your context?
- How should regulators ensure transparency without stifling innovation?

Used resources

- Mishkin, F. S. (2021). *Economics of Money, Banking, and Financial Markets*, 12th Edition
- Zairis (2024) *Sustainable Finance and ESG Importance*
- RFI Global MacroMonitor Reports
- Dan Byrne, *Guide to ESG in the Finance Sector*
- Grand View Research ESG Market Reports

2. Class Activity

Any QUESTIONS?

Thank You!

Next Class

- (June 06)
 - FinTech and Financial Institutions
 - Reading will be assigned