

CENTRAL BANK OF EGYPT
Egyptian Banking Institute



62.432

البنك المركزي المصري
المعهد المصرفي المصري

35.715

35.204

35.254

24.725

DECEMBER 2024

Green FinTech

Current Trend

32.751



DECEMBER 2024

Current Trends

| Concept

- Green fintech is the combination of financial technology (fintech) solutions and environmental sustainability goals. The concept uses innovative financial technologies to manage environmental challenges and promote sustainable practices in the financial sector. This orientation includes: development of digital tools and platforms facilitating green investments, encouraging transparency in environmental reporting and supporting environmentally friendly financial products and services. Green fintech leverages advanced technologies such as blockchain, AI, and big data to create financial products and services that reduce carbon emissions and drive investments in eco-friendly projects.
- Blockchain supports decentralized platforms for green investments, AI optimizes energy use and identifies sustainable investment opportunities, and big data provides insights into companies' sustainability performance. Green FinTech in the banking sector represents a pivotal shift towards sustainable finance practices, prioritizing environmental responsibility and social impact. This approach integrates innovative financial technologies to enhance the efficiency and transparency of banking operations while fostering eco-friendly initiatives.

| Background

- The financial sector is witnessing a transformative shift toward sustainability, driven by the convergence of fintech and environmental consciousness. According to a recent market research report by Global Market Estimates (GME), the global green fintech market is expected to grow at a CAGR of 22.4% from 2024 to 2029. Financial institutions are crafting loan products that incentivize businesses to embrace sustainability. Green loans often offer reduced interest rates for investments in energy-efficient technologies and sustainable practices. Fintech firms are also increasingly developing products that prioritize sustainability, including green bonds and investment platforms dedicated to eco-friendly initiatives.
- The adoption of digital payments significantly reduces the environmental footprint of traditional banking practices. By minimizing the need for checks and paper statements, these digital solutions contribute to eco-friendlier banking ecosystem. Fintech companies, through digital platforms, play a pivotal role in facilitating these investments, making it easier for individuals to support eco-friendly projects. The promising growth of the green fintech market highlights the sector's potential to drive significant environmental and economic benefits, making it a critical component of the modern financial landscape.

| Importance

- **Regulatory Compliance:** Green FinTech tools assist banks in navigating complex regulatory requirements related to sustainability, ensuring compliance while minimizing risk.
- **Corporate Social Responsibility and brand reputation:** Green FinTech solutions enhances banks' corporate social responsibility efforts. It showcases a commitment to environmental stewardship, which can enhance brand reputation and appeal to eco-conscious consumers. By offsetting carbon emissions associated with financial transactions, businesses can align their operations with sustainability goals and contribute to global efforts in combating climate change.
- **Customer awareness:** By leveraging mobile apps and digital solutions, banks can educate customers about sustainable practices, offering incentives for eco-friendly choices and promoting green financial products.
- **Operational Efficiency:** Green FinTech often lead to operational improvements, such as increased energy efficiency and reduced waste, resulting in cost savings.
- **Risk Management:** Green Fintech helps institutions identify and mitigate risks associated with environmental and social issues.
- **Market Differentiation:** In a crowded market, green fintech can serve as a key differentiator for financial institutions. By offering products and services that align with ethical and sustainable values, they can attract investors and customers who prioritize environmental consideration in their financial decisions.

Overall, Green FinTech in the banking sector not only helps financial institutions align with global sustainability goals but also drives innovation, enhances customer loyalty, and positions banks as leaders in the transition towards a more sustainable economy.

Practices: Trends powering the rise of Green FinTech:

Trend 1: FinTech Innovative Payment Solutions

Mobile banking, digital payments, EKYC (Electronic Know Your Customer) are helping to reduce environmental impacts by eliminating checks and paper statements. Digital wallets are rising in popularity over more traditional payment methods, which decrease the need for physical credit and debit cards, thereby reducing plastic waste. Contactless payments have also revolutionized transactions, especially in sector similar to public transportation, by reducing the need for cash and paper tickets. As for embedded finance, it offers discounted rates or favorable terms for purchasing

eco-friendly products. These types of technology simplify payments and contribute to a more sustainable payment ecosystem.

Trend 2: Carbon Tracking and Reporting

Globally, consumers increasingly demand tools to track the carbon footprint of their purchases. Recent findings from Tink (a Visa solution) indicate that 40% of individuals in the UK want their banks to provide resources for monitoring their carbon footprint, yet only 24% of financial institutions currently offer such features. This data underscores an opportunity for the financial sector to advocate for tools that help customers manage and mitigate their carbon emissions. Advanced analytics and blockchain technology enable banks to track carbon footprints and facilitate transparent reporting, helping both institutions and clients manage their environmental impact more effectively. Payment processors are also adopting carbon-neutral methods to offset their environmental impact. Companies leading in this space are implementing innovative strategies to offset emissions generated from every transaction in the payment processing.

Trend 3: The Power of AI

Artificial intelligence (AI) enables sophisticated analysis of sustainable investments, providing in-depth insights into the environmental and social impacts of investment decisions. This helps investors make informed choices that align with their sustainability goals.

Trend 4: Embracing the Future of Payments with Virtual Cards

Virtual cards provide a secure and fast way to distribute funds, while effectively managing spending limits. The total volume of virtual card transactions is predicted to hit 175 billion by 2028, growing from 36 billion in 2023, reflecting a significant growth according to a UK new Juniper Research Consultancy report. Virtual cards offer an eco-friendly alternative to traditional plastic cards and promote sustainable financial practices.

Trend 5: Green loans and sustainable lending:

Banks are increasingly using Green FinTech solutions to assess the environmental impact of potential loans, providing financing options for renewable energy projects, green buildings and sustainable agriculture.

| Challenges

Trend 6: Green investment platforms:

Digital platforms are being developed to connect investors with sustainable projects, allowing banks to offer tailored investment products that support green initiatives while providing attractive returns.

Despite the promising opportunities arising from the partnership between FinTech and sustainability, some challenges must be navigated for effective implementation:

1. Complexity and Integration:

Incorporating sustainability metrics into existing FinTech solutions can be complex, requiring seamless integration with financial processes without compromising efficiency.

2. Data Accuracy and Transparency:

Ensuring the accuracy and transparency of environmental data used for sustainability metrics is crucial for credibility and trust among stakeholders.

3. Regulatory Compliance:

Adhering to evolving environmental regulations and standards adds a layer of complexity and cost to Green FinTech solutions.

4. Cost and Return on Investment:

Initial costs (including investments in infrastructure, technology, and staff training) in developing and maintaining Green FinTech solutions may pose financial challenges, requiring clear demonstration of long-term benefits and returns. Balancing short-term financial performance with long-term sustainability goals is one of the main associated challenges to Green FinTech.

5. Consumer and Staff Awareness and Adoption:

Educating consumers about the importance of sustainable financial practices and encouraging adoption of green FinTech solutions remains a significant challenge.

International Cases

1. Cogo and Personetics Partnership:

Cogo a carbon footprint company has partnered with Personetics an AI based platform for financial institutions, to make it easier for banks to provide their customers with climate-conscious banking solutions. Banks using Personetics' digital banking solutions are able to offer customers the ability to measure their carbon emissions and thereby understand their carbon footprint based on spending habits.

2. HSBC recycled cards:

HSBC started to issue recycled plastic (RPVC) payment cards in 2021. Conventional payment cards are made from polyvinyl chloride acetate (PVC). The industrial waste produced from this material is challenging. Across the world, 6 billion plastic payment cards are produced every year. Recycled PVC plastic (RPVC) has the same durability and expiry date (5 years) as the PVC product, but is less harmful to the planet as they are using material that would otherwise be incinerated or sent to landfill. The aim of this step is to reduce the carbon emissions and reduce the amount of plastic waste.

3. Tomorrow banking application provided by Solaris SE (Germany):

Tomorrow offers a sustainable mobile banking experience that enables its users to achieve a positive impact with their money. The users' deposits are invested in sustainable projects, including renewable energies and social housing developments. For every euro a user pays with their Tomorrow card, Tomorrow protects 1 m² of rainforest from deforestation. Premium "Zero" users can even offset their carbon footprint entirely.

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Current Trends

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