Opportunity, and its travelling companion uncertainty, abound in this issue. We bring you crime, in the form of unexplained wealth; the future of banking; the investment opportunities in sustainability; the concomitant swing towards ‘green finance’; and the rewards of virtue – the growing evidence that ‘good’ businesses perform better as investments than ‘bad’ ones.

But how to keep track of all of this, and how does the young financial professional in particular cope with volatility and uncertainty at work? In a stirring new programme on CISI TV on ‘Smashing through “the long maybe”’, Dr Robert Barnes, Chartered FCSI, a director at London Stock Exchange and former CISI director, paints a graphic picture of the new knowledge and skill sets that will be needed in tomorrow’s very different world. At the CISI/CSFI – Centre for the Study of Financial Innovation – Mansion House City Debate in March 2018, the motion that ‘Fintech would save the City’ was knocked down overwhelmingly (by three to one) by the notion that a new generation of properly-trained and constantly-up-to-speed people would do the trick.

As we explained in the previous Review of Financial Markets, we are working to that end with the Open University (UK) and the University of Regensburg (Germany) in a collaborative research project to examine how professionals in the finance sector deal with volatility at work. Insights from this research will be used to develop training interventions for better professional development as the study progresses. Full details of the survey and the opportunity to participate can be found at csi.org/futureproof, available to access directly in the online edition of The Review.

The changing world of professional learning

The world of learning and continuing professional development is changing beyond recognition. Daniel Broby, Chartered FCSI, an investment manager by profession who now lectures at the University of Strathclyde in Glasgow, has launched the first Masters in Fintech in the UK, and as part of that has been working with colleagues at Strathclyde and the University of Glasgow on how the new and emerging world of fintech is changing financial education.

In a recent paper titled On the educational curriculum in finance and technology, Karkkainen, Panos, Broby, and Bracciali identify how recent technological developments such as big data, cloud computing, artificial intelligence, blockchain, cryptocurrencies, peer-to-peer lending, crowdfunding, and robo-advising are changing the educational curriculum. They argue that while traditional computer programs and other technology have been around for a while, the new fintech sector is enabling transformation of the financial services sector, and the way finance is taught has to change. They propose an updated educational curriculum that balances knowledge and understanding of finance and technology. They point out that a curriculum that provides a skill portfolio in the two core components and complements them with applied knowledge can support the enabling forces which will render fintech as a true opportunity for the financial service sector and for society as a whole. Their paper is a scholarly inquiry into the educational curriculum in finance and technology, reviewing skills shortages, as identified by firms and experts, and examines the state-of-the art educational processes embedded in some of the first educational programmes in fintech.

A Strathclyde PhD graduate, Allison Littlejohn, now professor of learning technology and academic director of digital innovation at the Open University (and co-director of the study referred to above) delves further into the theme of Reconceptualising learning in the digital age in a book to be published by Springer in summer 2018. With co-author Nina Hood, a research fellow at the Faculty of Education, University of Auckland, she probes the world of ‘massive open online courses’ (MOOCs) and open learning within a broader educational, economic and social context. This study raises questions regarding whether MOOCs effectively address demands to open up access to education by triggering a new education order, or merely represent “reactory or unimaginative responses” to those demands. The book’s subtitle is The (un)democratising potential of MOOCs. It offers a fresh perspective on how we conceptualise learners and learning, teachers and teaching, accreditation and quality, and how these dimensions fit within the emerging landscape of new forms of open learning.

The contradictions in MOOCs

MOOCs, say the authors, are often viewed as synonymous with innovation and openness. In the financial world, they are sometimes seen as a panacea for the education and CPD needs of those working in routine functions – such as securities operations. Littlejohn and Hood open their work by “interrogating” the wide-ranging uses and interpretations of the terms massive, open, and course and how these terms are represented in different types of MOOCs.

“We then identify contradictions associated with MOOC excitement. Despite the initial agenda of MOOCs to open up access to education, it is seen that they tend to attract people with university education. Rather than offering scaffolds that support people who are not able to act as autonomous learners, MOOCs often are designed to be used by people who are already able to learn. Like traditional education systems, MOOCs usually require learners to conform to expected norms, rather than freeing learners to chart their own pathways. These norms sustain the traditional hierarchy between the expert teacher and novice learner. A particularly troubling feature of MOOCs is that, as supports are becoming automated and technology-based, this power structure is becoming less visible, since it is embedded within the algorithms and analytics that underpin MOOCs.”

MOOCs have become an industry in their own right, say the authors. Organisations have been founded to offer MOOCs to millions of learners worldwide. ClassCentral (class-central.com), a website aggregating data and information on MOOCs, listed 30 MOOC providers in 2017. These providers partner with over 700 universities around the world to offer MOOCs. It is estimated that around 58 million students had signed up for at least one MOOC by the end of 2016. We will be assessing some of the practical implications of this for future learning in the next Review.
The rise of sustainable investment

A conspicuous trend recently has been rapidly-growing interest in and demand for environmental, social, and governance (ESG) products. The rise of sustainable investment

Unexplained wealth – whose business?

This year’s Cambridge University Economic crime symposium, the biggest event of its kind in the world, has a special focus on unexplained wealth; a key academic research focus in recent years and now an urgent target of governments worldwide, including the UK. For example, Transparency International, one of the leading non-university researchers in the field, identified the disproportionate spread of unexplained wealth in the UK, for instance, with 32% of the world's unexplained wealth held within the UK’s borders.

Unexplained wealth has become a key issue for policymakers and law enforcement agencies. It is a major concern for governments and international organizations, as unexplained wealth is linked to terrorism, money laundering, and tax evasion.

The symposium will have a special focus on unexplained wealth and will bring together experts from around the world to discuss the latest research and developments in this field. Attendees will have the opportunity to hear from leading experts, including policymakers, law enforcement officers, and financial analysts, who will share their insights and experiences.

Winning the war against financial crime: best practices and emerging risks

The symposium will host a special day-long programme on City issues, including economic crime. The programme will focus on how to win against financial crime and will address the latest trends and challenges in this field.

BIG DATA AND ESG INVESTING

Ciaran McCale, head of media and communication, Arabesque

Machine learning is shaking up the world of finance. What was once the preserve of technology firms, the financial sector – from innovative start-ups to Wall Street – is starting to apply the technique to everything from fraud protection to finding new trading strategies, promising to change the global market landscape forever.

This paradigm shift has coincided with another mega trend that we are currently witnessing across finance, which is the rapidly increasing demand for environmental, social, and governance (ESG) products. Research has shown that more sustainable firms generally outperform the top in green finance; and spreading best practice in green finance and

Hit the top 20% of ‘good’ companies out but the market

Ciaran McCale discusses the work of S-Ray – which systematically combines relevant and understandable to investors. The report has sparked areas on which further research might focus, including the factors that lead to improvement, the effectiveness of policy, and the views of those with differing levels of involvement in the field. We will follow these closely in future editions of RoM.

The Thirty-Sixth International Symposium on Economic Crime is the most extensive and ambitious programme that we have so far attempted to put together. The overarching theme is how we can better identify and render accountable unexplained and suspicious wealth. As we increasingly realise the way in which most of us approach suspect wealth and money laundering lacks efficiency and imposes arguably disproportionate burdens and risks on the financial and business system, it appears a partial answer might be in focusing on the identification of unexplained wealth, but then what do we do?

These important and timely issues are pursued in a practical, applied and engaging way, and provide context with the benefit of experience from around the world. The symposium, although held in one of the world’s leading universities and recognising the significance of intelligent deliberation, is not a talking shop for those with vested interests – official or commercial. We strive to offer a rich and deep analysis of the real issues and, in particular, threats to our institutions and economies presented by economically motivated crime and misconduct. Therefore, well over 600 experts from around the world will share their experience and knowledge with other participants drawn from policy makers, law enforcement, corporate and financial professionals. The programme is drawn up with the support of several agencies and organisations, and the organising institutions and principal sponsors greatly value this global commitment. In recent years the symposium has attracted well over 1,800 participants from over 95 countries.

In considering how to better discourage and control economic crime, we examine the real threats facing our economies and, in particular, those who look after other people’s wealth – not just from criminals and terrorists, but also indirectly as a result of law enforcement and regulatory interventions. We assess the risks and the responses, not only in terms of the law, but also regulation and especially compliance practice. Therefore, in every specialist panel or workshop there is an array of relevant practical expertise and experience.

As in previous symposia, we do not focus on a single issue, no matter how important, but address a wide range of topics concerned with promoting integrity. Just spend a few minutes to look through the 36th Symposium’s comprehensive programme – I am confident that you will be impressed by its depth, breadth and relevance. The symposium is not an ordinary conference; it was conceived to fulfil a practical purpose – to promote the understanding of economically motivated crime and facilitate cooperation and effective action, ideally preventative. Consequently, we make every effort to foster networking and promote meaningful cooperation. The Cambridge Symposium is not and has never been just a conference. It is organised on a non-profit making basis by some of the world’s most respected academic and research institutions with the active involvement and support of governments and international organizations. Those who are concerned to protect and promote the integrity and well-being of their national economy or institution – whether or not they have a vested interest in protecting the integrity and well-being of others – will find much here that is of relevant and practical interest.

The Symposium will host a special day-long programme on City issues. The programme will focus on how to win against financial crime and will address the latest trends and challenges in this field.

The CFO of one of the new banks told the author once, “We’re targeting the 18–35-year age group only”. This may or may not be a wise strategy, but it does mean a large section of the potential

The technology needed to innovation in finance has often been a force for much good in the world. It is worthy of preservation, and if one were to observe a rickshaw puller on the streets of Dhaka, Bangladesh (average salary US$1 per day) using a cell phone, one would indeed be convinced of this. The technology needed to

The author wrote this in the preface of his book The mechanics of securitization. In response to the events of 2008, the competition authorities and

Genuine customer service is it important to avoid platitudes when formalising one’s attitude and objectives with regard to customer service. Every bank, indeed every corporate providing a service, will always insist that “the customer comes first” and that they promise to deliver customer satisfaction. This aim is as

Omni channel: some customers, individuals and SMEs alike, are performing transactions with banks through digital interfaces only, and have no desire or need to talk to a member of staff either.
in person or on the phone (or video link). Some may never step into a bank branch. Still others prefer to deal with a human being for at least some service requirements, such as a mortgage, personal finance loan, or FX exposure hedge requirement. Unless a bank is specifically setting itself up as a niche provider for a certain group of customers only, it will need to ensure it provides the customer interface infrastructure that all its customers are likely to desire to use throughout the entire period of the customer relationship. This means enabling digital mobile, phone, internet, video, but it is also a reason why the bank branch is unlikely to disappear. To that end:

1. Just as many well-known brands do not locate a sales outlet in every city, many banks also do not need to do so. A smaller number of branches is expected over the next 10–20 years, and this is logical: a good yardstick would be to position branches ‘in major’ population centres only. In the UK there are only 21 towns and cities with a population greater than 250,000.

2. The ‘model bank’ we describe in the next section adopts the following strategy: place a branch in every town with a population of 250,000 or over. For the UK, this would mean just 21 branches for the entire country. This is a far cry from the many hundreds (or even thousands) of branches some UK banks possess at the time of writing this book, and so it is an opportunity for a significant cost saving. And the branch would remain what it was still today: an important part of the customer interface and relationship maintenance process.

3. Instant response: in the digital technology era, there is little justifiable reason for any form of delay in the service process, be this a approving a loan, responding to an information request, or correcting an error. Any good bank must place instant response service provision at the top of its priorities, measured in hours rather than days.

4. No more ‘computer says no’ banking: the adoption of open banking relying on models and assumed parameter input has been the significant factor behind the erosion of the relationship with the customer. Computer models are an integral part of the finance sector and will remain so, but an element of judgement call made by a human being is the essential ingredient of genuine good customer service provision. In the UK banks such as TSB and Handelsbanken are noteworthy for enabling local branch managers an element of automation in the loan origination decision. This must surely be the way forward for any bank that takes genuine customer service seriously.

5. Delivering the above requires the right working culture in the bank. To help cultivate the correct culture, there is one imperative: employee remuneration should not be linked to customer volume, sales levels, or P&L, but rather customer satisfaction levels. Anyone who disagrees with this should acquaint themselves again with the stories of each of the bank founders. Anyone who disagrees with this so-called challenger banks need to do more than simply apply a sleek app if they wish to mount a genuine challenge to the established banks. A common premise that while one or two fintechs may thrive in Europe, the US market is often fragmented in comparison and as such established banks will need to be challenged by a full-service digital service provider rather than a niche provider. But the fintech start-ups in Europe may find a similar obstacle in Europe as well. For instance, it is a moot point how many of the more-than-20 new banks; mainly mobile-only entities, that have been licensed in the UK since 2013 will still be around in 2023 or beyond. Any bank needs to present solid USPs and a reason for a customer to move over to it, and it is in this sphere that so many challenger banks struggle to build critical mass. If a bank cannot present a convincing reason why a customer should change its supplier, it isn’t necessarily challenging anybody.

### ChoudWest Bank: the model bank and ‘concierge banking’

This hypothetical bank presents a business model that is customer-centric and technology savvy: its credo is in effect to bring ‘private banking to everyone, but by private banking we don’t mean asset management and tax planning for wealthy individuals; our definition is of a bank that provides a personal service to each of its customers, retail and corporate, irrespective of their size or income generation potential. Doing this by definition sacrifices an element of profit for the bank. Traditionally, it would also necessitate a large physical branch present and considerable front-office staff numbers, but in the era of fintech this necessity is negated somewhat. In other words, it is by no means inevitable or preordained that, unless one is a high net-worth individual or a large corporate, one has to go without personal service or human contact. Therefore the bank needs to reduce the expression of ‘concierge banking’ to encapsulate its service offering. It defines this as follows:

With Concierge Banking we will make each and every customer feel like they are the most important and valuable customer we have.

The following exhibits set the scene, illustrate the problems with customer service, and how a bank (whether a new start-up or established institution) might look to address the issue. They are self-explanatory. They are designed to be applicable in any jurisdiction, but of course in some countries the problems suggested – and their respective solutions – may not exist, which case that is already a more satisfactory state of affairs to begin with. Tables 1 and 2 list some current customer issues with their bank in many countries around the world. Figures 1 to 4 describe the model bank’s response to them.

### Table 1 Current customer issues

<table>
<thead>
<tr>
<th>SMEs</th>
<th>Retail customers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Limited access to unsecured borrowing, and decline in lending</td>
<td>Mass market general customer services, not individual focused</td>
</tr>
<tr>
<td>Their bank doesn’t understand their business</td>
<td>Attractive interest rates or bonuses disappear after a short time without notification</td>
</tr>
<tr>
<td>Often feel that charges are excessive, simple, and unfair</td>
<td>Poor customer response: late, insinuating, taking forever to respond</td>
</tr>
<tr>
<td>Overdraft facilities are being withdrawn at short notice</td>
<td>Unusual or onerous contract terms; hidden fees and charges</td>
</tr>
<tr>
<td>Finding criteria all but too onerous</td>
<td>No genuine service, unable to speak or meet with a human being who is familiar with personal situation</td>
</tr>
</tbody>
</table>

### Table 2 Crowded competitive landscape – no single bank meets all customer type/requirements.

<table>
<thead>
<tr>
<th>Existing banks</th>
<th>Challenger banks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial planning, personal and corporate banking, generally serving only a portion of SME and retail bankers' needs</td>
<td>1. Specialist lender</td>
</tr>
<tr>
<td>2. Delivers online consumer finance, property lending</td>
<td>2. Specialist property lender</td>
</tr>
<tr>
<td>3. Telephone, internet, and some limited relationship banking</td>
<td>3. Business lending, property finance, and savings</td>
</tr>
<tr>
<td>4. Business lending, property finance, and savings</td>
<td>4. Internet and intermediary based</td>
</tr>
<tr>
<td>5. Full product suite</td>
<td>5. Regional focus</td>
</tr>
</tbody>
</table>

### The Moorad Choudhry Anthology

Professor Moorad Choudhry FCSI has recently published an Anthology which compiles the best of his incisive writings on financial markets and bank risk management, together with new material that reflects the legislative changes in the post-crisis world of finance and the impact of digitisation and global competition. Covering the developments and principles of financial markets and bank risk management, together with new material that reflects the legislative changes in the post-crisis world of finance and the impact of digitisation and global competition, this unique book outlines the author’s recommended best practices in all aspects of bank strategy, governance and risk management, including asset-liability management, liquidity risk management, capital planning, Treasury risk, and corporate governance. Described as ‘a vision of the future’ with remarkable value for any bank manager, the Anthology was accorded 9.9 out of 10 by the Editor of the Financial Times. It is available from all good bookshops, or online at amazon.co.uk. The Anthology is priced £15.99 and includes a foreword by Alan Greenspan. The Anthology is the first book to be published by the Moorad Choudhry Foundation and it has a strong social purpose to move funds to the poor and to help感恩underserved customers.

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4. This section was co-authored with Adam Gatty

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**Figure 1** – Creating a value proposition that delivers concierge banking

**Figure 2** – Addressing customer issue 1: Why can’t I be treated like an individual?

**Figure 3** – Addressing customer issues 2: Why should I need to have two relationships?

**Figure 4** – Addressing customer issues 3: Why should I settle for ‘computer says no’ banking, or busy call centres where my query is simply passed down the conveyor belt?

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3. SMEs: Small and Medium-sized Enterprises

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Our proposition seeks to address what we believe are three simple customer requirements. We aim to provide a different banking path for SME and retail customers and in turn, provide genuine good customer service.

We strive to understand your business as a whole, as well as the lending solution that suits you.

Our relationship managers understand what it means to be on SME and will treat every business on its own merit – there are no prescribed sections.
Islamic financial market practitioners have long argued that forms of Shariah-compliant finance bring impact beyond conventional market alternatives. Their supporting logic is that funds are raised and invested in asset-backed and asset-based transactions with socially conscious objectives and that funding can be delivered through public and private sector contractual arrangements that promote partnership and the sharing of profit and loss for the benefit of the wider economy. Following the global financial crisis, debate about culture and practice within global financial services, as well as their prospective impacts on global social welfare and environment, became a core agenda item for both private and public sectors. Environmental, social and governance (ESG) focused determinants became increasingly numerous, with the social (S) element including crisis and conflict management, community infrastructure services such as healthcare and education, employment and diversity. These determinants resonated further when asset owners, investors and institutions set objectives beyond risk and return to prioritise global social welfare within investment criteria. The descriptors applied to the various groups and focuses within the responsible investment subset are seemingly ever-evolving, encompassing not just considerations of social impact but those pertaining to the environment (E), including green financing and sustainable development. Social impact and governance (G). Frequently grouped together, while responsible investment practices incorporate environmental, sustainability and social welfare considerations and therefore have similarities, investors and banks also adopt socially responsible investment (SRI) values endeavor to combine financial return with moral or ethical return with the purpose of satisfying measurable social impact objectives.

There is now a growing consensus that the objectives of generating profit and doing well (in whatever form, be it tackling environmental concerns, poverty alleviation, humanitarian crisis management or resourcing healthcare or education) are not mutually exclusive and, in fact, can be achieved in tandem. On 25 September 2015, the General Assembly of the United Nations adopted a set of 17 Sustainable Development Goals (SDGs), with specific targets to be achieved by 2030, as a universal call to action to end poverty, protect the planet and ensure peace and prosperity for all. With an inclusive agenda, the goals are interconnected and provide clear guidelines for adoption, as well as targets for all countries to unite them and address the root causes of poverty. Subsequently, an acceleration of thematic funds and investment products targeting socially impacting assets has taken place.

The Islamic capital markets appear to have embraced the trend towards sustainable investment, particularly in South East Asia. Mirroring growing demand for green assets from conventional market investors, there is a similar trend developing in the Shariah-compliant space. This is small in size at date but undoubtedly growing, in parallel with investments that are made with reference to social considerations. Malaysian sovereign wealth fund, the Doha Fund for Development. Recently, the IDB, through a statement made at the IMF World Bank meeting in Washington DC in October 2017, affirming its intention to extend its Sukuk issuance program in support of financing medium to long-term projects that are principally focused on the SDG objectives.

These are just a few illustrations of the impact that multilateral and high-profile public/private sector undertakings can deliver; they are critical. The SDGs will not be achieved without a collective, effective, and inclusive social infrastructure for delivery. Sources of conventional, institutional funding do not have sufficient capacity to meet demand and the position is further challenged in emerging economies or those where financial markets remain underdeveloped. Examples of benchmark transactions like IFI’s have been very limited to date but over the years, financial and investment templates have evolved in response to investment requirements across a diverse set of infrastructure projects in numerous geographies and sectors. They have shown that most asset-backed or asset-based transactions are generic for their underlying asset class, whereas sources of Shariah and conventional finance can coexist successfully and that funding can be delivered through public and private sector collaboration in various forms ranging from private sector funding being deployed, multilateral development banks and institutions have been pathfinders, but precedents have been created for commercial lenders to follow.

A changing dynamic in investor demand and stipulation is also now playing its part in shaping the funding of social infrastructure, while diversifying sources of investment, prospectively adding capacity, will and scale. The scope and extent of demand is not just apparent within the wholesale markets, either. In the next few years, millennials those born between 1980 and 2000 will inherit the largest transfer of generational wealth to date and are potentially set to control US$24tn by 2020, according to Deloitte. Millennials tend to be better educated, better informed and more socially conscious. They are proactive investors and philanthropists and have shown already that they are willing to invest their capital in the SDGs within the global financial services. Islamic financial institutions are continuously innovating and exploring new opportunities.

The Lives and Livelihoods Fund (LLF) is a blended US$500m in funding with US$26tn of the IDB’s own capital to enable the IDB to accelerate its concessional financing of health, agriculture and basic infrastructure for the IDB’s lower income member countries. Major LFF donors include the IDB’s own Islamic Solidarity Fund for Development, the Bill and Melinda Gates Foundation and the World Bank. The King Salman Humanitarian Aid and Relief Foundation and the Abu Dhabi Fund for Development recently, the IDB, through a statement made at the IMF World Bank meeting in Washington DC in October 2017, affirmed its intention to extend its Sukuk issuance program in support of financing medium to long-term projects that are principally focused on the SDG objectives.

Conclusion

There are many principles of Islamic finance and investment that are complementary to impact investing. Both focus on creating financial systems that are more responsive to the real economy and provide a more holistic approach for all stakeholders. Undoubtedly, the stewardship embraced by Islamic financial practitioners promotes social impact and governance but, as a financial sector subsector that has evolved from a commercial banking model within emerging markets, there has been a timeline to ensuring that the sector’s capabilities in terms of both product development and the mindset of its stakeholders are suitably developed, aligned and appropriately placed to deliver. Given the enormous global requirement for investment in social infrastructure development to satisfy welfare needs, public sector policy and multilateral accord must provide the framework for delivery of financing and investment solutions to achieve goals and meet objectives. However, the opportunity is there for private sector participants to aggregate and manage demand and that funding can be delivered through public and private sector collaboration in various forms ranging from private sector funding being deployed, multilateral development banks and institutions have been pathfinders, but precedents have been created for commercial lenders to follow.

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As we accelerate through the 21st century, the world is facing a number of significant challenges which will require unprecedented levels of investment in systems and infrastructure if they are to be overcome. The transition to a green economy, required if the world is to meet its climate and to the environment and to the climate (such as energy efficiency or dams) the financing of public policies (including operational costs) that encourage the implementation of environmental and environmental-damage mitigation or adaptation projects and initiatives (for example feed in tariffs for renewable energies) the components of the financial system that deal specifically with green investments, such as the Green Climate Fund or financial instruments for green investments (eg green bonds and structured green funds), including their specific legal, economic and institutional framework conditions.

Why an index?
Measurement is important, and this is reflected in the mantra of business management: ‘we value what we measure’ but is also an innovative and important tool. Measurement is only a means to an end. The purpose of measurement is to facilitate the development of sustainable financial systems and the greening of financial products and services.

Why an index?
Measurement is important, and this is reflected in the mantra of business management: ‘we value what we measure’ but is also an innovative and important tool. Measurement is only a means to an end. The purpose of measurement is to facilitate the development of sustainable financial systems and the greening of financial products and services.

What are we seeking to measure?
The Global Green Finance Index (GGFI) seeks to measure perceptions of the quality and depth of green financial products across the world’s financial centres. This leads to three questions:

- What is green finance? What is a financial centre? How can you measure quality and depth?
- What is green finance? What is a financial centre? How can you measure quality and depth?
- What is green finance? What is a financial centre? How can you measure quality and depth?

The approach to measuring quality and depth

Green financial products and services have been traded for over two decades, but until recently, volumes were quite small and traded tenaciously, rather than being traded on mainstream international markets. Measuring the quality and depth of green financial products across the world’s financial centres presents a significant challenge. This has been recognised by the UN and other international bodies and has formed the focus of a number of initiatives, including UNPRI FIV, Positive Impact Initiative, UNEP’s Financial Centres for Sustainability Initiative, Climate KIC, HCE and PwC’s Benchmark, and UN PRI’s Sustainable Stock Exchanges Initiative.

The GGFI is complementary to these initiatives, as it seeks to use advanced analytical techniques to bridge the gaps in existing data by combining quantitative factors with the perceptions of financial services professionals and other experts. Another strength of this approach is that it is future-facing, combining the real-time opinions of practitioners with past performance data. As survey data for the GGFI is gathered on a continuous basis, we plan to publish updates twice a year; the index will be sensitive to real-time changes in the international policy environment and developments in financial services markets.

The survey asks for views on the penetration of green finance in a financial centre’s overall financial activities. The GGFI draws on past performance data to reflect the mix of financial investments, such as the Green Climate Fund or financial instruments for green investments (eg green bonds and structured green funds), including their specific legal, economic and institutional framework conditions.

Areas of green finance: impact on sustainability
Alongside the ratings of penetration and quality in the GGFI questionnaire, the project asked additional questions about the drivers of green finance. These focused on: areas of green finance considered most interesting by respondents; areas of green finance with most impact on sustainability; and factors driving the development of green finance.

We asked respondents to identify the four areas of green finance which they considered had most impact on sustainability. The results are shown in Chart 2. The top areas listed are: renewable energy investment; green bonds; sustainable infrastructure finance; environment, social and governance (ESG) analytics.
THE REWARDS OF VIRTUE

As part of the CSFs education programme with BlackRock, one of the world’s biggest asset managers, we recently ran a major event for members on some of the key drivers in sustainable investment, one of the hottest topics in wealth management, financial planning, and capital markets in 2018. This note provides some of the chief highlights from this talk. The full version is available on CISI TV.

John McKinley, a director at BlackRock and one of the founders of the firm’s Sustainable Investing team, spoke to a packed audience of CSF members, many of them high-flyers from major houses, in mid-April. His full talk is available now on CISI TV, but his key points are summed up in BlackRock’s belief that ‘companies that effectively manage ESG – environment, social, and governance – risks and opportunities perform better over time. BlackRock benefits from one of the biggest and most sophisticated data analytics machines in the world – ‘Aladdin’, which makes most academics green with envy. Hooking up with the equally prodigious MSCI research has found that companies with strong ESG profiles exhibit the following characteristics:

**Stronger cash flows**
They are more competitive than their peers because they more efficiently use their resources, and/or have better human capital management as well as better management of long-term business plans. This leads to higher profitability and higher dividends.

**Lower idiosyncratic risk**
They have better risk control and compliance standards. Better risk management as well as better management of long-term business plans more efficiently use their resources, and/or have better human capital management as well as better management of long-term business plans. This leads to higher profitability and higher dividends.

**Higher valuations**
They are less vulnerable to systematic market shocks and therefore show lower systematic risk. Lower systematic risk means a lower beta, which translates to lower cost of capital and a higher valuation. Further valuation is increased through the increased size of investor base.

**The example is for illustrative purposes only.**

How to incorporate sustainable investing

There is a broad spectrum of ways to incorporate sustainable investing. Investor motivations often fall into one of two categories: ‘Avoid’ and ‘Advance’. Avoid is about eliminating exposures to certain sectors or activities. Advance is about aligning capital with certain behaviours, activities, or outcomes. The graphic below, supplied by BlackRock, shows some solutions for avoiding and advancing. Solutions marked with an asterisk are currently in development. (As ever, there is no guarantee that a positive investment outcome will be achieved. The information below is for illustrative purposes only and should not be interpreted as investment advice or recommendation.)