

FUTURE-PROOFING INNOVATION x FINANCIAL SERVICES

How can the Financial Services industry transform towards a more sustainable future?



INTRODUCTION

Future-Proofing Innovation is a series of roundtable conversations hosted by Capgemini sustainability and business experts inviting clients, partners, academics, and influencers to discuss the general topic of sustainability in innovation. Each discussion focuses on a specific industry. The fourth roundtable took place in New York on December 14, 2022, with a focus on the Financial Services industry.



This session was hosted by Satish Weber, Executive Vice President and Head of Sustainability Financial Services at Capgemini. Attendees included Sankar Krishnan, Executive Vice President, Head of Digital Assets & Fintech at Capgemini; Dr. Tobi Petrocelli, Director of Environmental and Sustainability Management at MUFG Americas; Stacey Brown, President at InsurTech Hartford; Matthew Sekol, Advocate, of Driving ESG, Sustainability, and Digital Growth, Microsoft; Dr. James Robey, Global Head of Sustainability, Capgemini; and Stacey Levine, Director at Capgemini Invent, who works closely with Capgemini insurance clients and who is a big advocate of sustainability.

In his opening remarks, Dr. James Robey, Capgemini's Global Head of Sustainability, welcomed our guests, and said how much he was looking forward to the session.

He observed that the financial services industry is going to be crucial to the transition to a low carbon future, whether it's providing the capital for the transition or ensuring the ever-increasing risks linked to climate change. Without innovative financial solutions, he said, the transition will be impossible, which was why he believed this conversation was so important.



TOP SUSTAINABILITY TRENDS IN FINANCIAL SERVICES

The host for the session was Satish Weber, Executive Vice President and Head of Sustainability Financial Services at Capgemini. She opened the main discussion by reinforcing Dr. James Robey's point about the special relevance of financial services in any move towards sustainability. She said that this is a sector that drives investment, resilience, risk prevention, and risk mitigation across society. She also said that the explosive growth of data in modern times was catalyzing the need for digital transformation, and that this in turn meant that, now more than ever, organizations had to innovate.

So, she asked: what did the panel think were the key sustainability trends in this sector?

Stacey Levine, Director at Capgemini Invent, said financial services organizations were saying they are not making enough money when they give green discounts, and that products and services aren't meeting the needs of their customers. Firms were therefore thinking about how they could hyper-personalize products to meet what's happening in different geographies and different zip codes, especially on the property and casualty side.

She added that firms were also thinking about the impact on life insurance, with changes to the planet and to life expectancies. In short, she said, there were many moving parts around how organizations might make money without discounts but also without driving up prices, while at the same time offering products that really meet the demands of customers.

Sankar Krishnan, Executive Vice President, Head of Digital Assets & Fintech at Capgemini, identified three trends. The first, he said, was that many major financial services organizations were now appointing chief sustainability officers, who are focused on developing teams that are finding new ways to measure and manage things.

Implicit in this measurement, he said, is data – lots of it. That was the second trend he saw: banks around the world are creating enterprise-wide data systems so that they can see across everything and take corrective action by measuring what is good, what is not good, and what is failing. These insights, he said, enable chief sustainability officers to define a robust data strategy.

"Thirdly," he said, "we are seeing the onset of a lot of regulation. Most of it today is self-regulation, but also institutions like the Federal Reserve are watching what the banks are saying."

POLICY AND REGULATION CHALLENGES IN SUSTAINABLE PRODUCTS AND SERVICES

The regulatory point was pursued by Dr. Tobi Petrocelli, Director of Environmental and Sustainability Management at MUFG Americas. "Regulation," she said, "has been probably the biggest trigger or pressure point for us. Compliance is a critical aspect."

She explained that MUFG has made a commitment to be net neutral by 2050, not just of its own internal operations, but of those of its corporate clients' operations. That was why it was important not just to be aware of and to comply with different requirements in different geographies, but to understand what best practice ought to be in response to those obligations. As a result, her organization has gone in just a few years from a handful of people to a team of over 50 who are globally dedicated to sustainability efforts.



"Regulation is a big trigger point. Compliance is critical."

Dr. Tobi Petrocelli

Director of Environmental and Sustainability Management, MUFG Americas



Satish Weber noted that climate change had a direct bearing on insurance, and she invited Stacey Brown, President at InsurTech Hartford, to comment on trends in the sector. Stacey said many of the models that insurance companies had been using for many years to predict loss aren't holding up because they weren't originally designed to accommodate the concept of climate change. This meant, he said, that they were looking for sources of data on which to base new models, as well as for new ways to measure that data so as to predict more accurately. Insurance businesses, he said, were exploring ways of working together towards a standardized approach to reporting on the industry, and to track progress on being green.

Stacey Brown later gave another, related example. He said that while electric vehicles were becoming more prevalent, there still weren't enough of them on the road to extrapolate sufficiently accurate risk profiles. There simply wasn't sufficient data. Risk, he said, was a combination of severity and probability, and so if the frequency of damage remained constant but its implications were higher, the impact could be severe. For instance, the loss of the battery might write off the car altogether.

Not all challenges relate to policy or regulation. Dr. Tobi Petrocelli said it was frustrating to see signs of backlash against the principle of ESG in parts of the US. For example, she said, some asset managers were pulling out of pension funds that were investing with sustainable issues in mind because they saw that as a negative. "As financiers," she said, "we're not looking to take sides with anyone. We're trying to make the most informed decision. We're trying to lend to all asset classes. We do have a portfolio in the power and utility space, and in the oil and gas space. Without it, we'd be sitting in the dark right now." In short, she added, it was about "what would be best for the economy, but also about how we ultimately get to the net zero transition we're all looking to achieve."



"Getting quality data is really the biggest trend out there right now."

Matthew Sekol

Driving ESG, Sustainability, and Digital Growth, Microsoft



Data trends were reinforced by Matthew Sekol, who is responsible for driving ESG, Sustainability, and Digital Growth at Microsoft. He said financial services organizations were telling him they need not more data, but higher quality data. He said that Stacey Brown was right because data informs every decision from product development, to where to invest, lend, and how to insure. "It's really the biggest trend out there right now," he said.



INNOVATION FOR A GREENER FUTURE IN FINANCIAL SERVICES

Satish Weber asked the panel to take stock of these sustainability developments, and to discuss their implications for investment in relevant technologies.

Matthew Sekol said much of the focus in financial services right now is on disclosures. He said organizations were realizing they need to look beyond greenhouse gas (GHG) emissions to broader environmental, social and governance (ESG) metrics. To analyze this data, he said, they will need artificial intelligence. They're going to take advantage of tools like blockchain to build a secure data supply chain, all the way from raw source materials right through the corporation, where they're investing all the way up to either the ESG data aggregators or the capital markets firms.

Matthew Sekol added that the new climate models that are so badly needed by insurance businesses were likely to be built in the cloud. "A lot of that technology doesn't exist yet," he said, "but I'm optimistic that we'll see a lot of great innovation over the next three to five years."

How is innovation working out in practice? Dr. Tobi Petrocelli gave an example. When considering a financing proposition, her organization would conduct ESG assessments as part of the due diligence process. Those assessments would include working with vendors who use machine learning (ML) or artificial intelligence (AI) to monitor news and other global online information resources to calculate risk.

She said MUFG would typically then look more deeply into the prospective client's sustainability reports and environmental assessments. "What are their transition plans?" she asked. "If they have set carbon neutral goals, what are they? And then we work alongside them. If we feel we are comfortable to lend, then we discuss their transition plans with them, and in turn perhaps establish a KPI that can help them on their reduction pathway."

Stacey Brown observed that sometimes the process of innovation is itself not very innovative, and that organizations needed to make themselves more open to adaptability in the way they seek and develop new ideas.

Sankar Krishnan gave other examples. For instance, he said retail banks had developed sustainable cards, which had proven popular especially among younger people, and which had significantly reduced paper usage. Another example was the move towards a point where an organization's green credentials could materially and positively affect their credit scores, giving them better and greater access to funding than might otherwise be the case.

Stacey Levine provided further instances. There was much investment in the Internet of Things (IoT), she said: for example, remote monitors coupled with smart technology could close valves and stop floods before they happen. It was all about focusing on the smart devices that could make the biggest difference, she said – and it was also about service providers giving advice about investments that could be beneficial in this way.

Of course, organizations also invest in their people. Dr. Tobi Petrocelli said that at MUFG they have set up a sustainability office, with a training program for all managers and all the business's stakeholder relationships to develop an understanding of, not just climate risk, but how it impacts the bottom line. The aim is to ensure the entire loan lifecycle becomes more embedded with ESG principles.

The program, she explained, covers many areas, including the onboarding of a client, and suggesting KPIs to clients that could help them reduce their carbon footprint, or waste, or water usage. Training is delivered quarterly and by topic area – and senior executives have been brought into the program too.

It's all helped, she said, to enhance awareness and buy-in, and to bring home to everyone that climate net zero activity represents a significant opportunity.

Similarly, Matthew Sekol said that around two years ago, Microsoft started a cybersecurity initiative and an AI business school, and that just a few weeks before this roundtable took place, the company's president Brad Smith had announced the sustainability skills initiative, with the aim of educating the public.



DO FINANCIAL SERVICES COMPANIES INFLUENCE SUSTAINABILITY?

Satish Weber asked how financial services companies could lead the way towards a more sustainable future for the market.

Sankar Krishnan said if the credit score system he mentioned earlier were adopted by more banks and other financial institutions, the incentives for more businesses to improve their sustainability would be greater. Stacey Brown suggested encouragement could be given in a similar way to those engaged in underwriting.

Sankar Krishnan added it would also be beneficial if the entire start-up ecosystem could be infused with ESG principles, such that anyone moving into providing the financial services sector with cloud offerings, or data services, or hyperscale services, were themselves starting from a soundly sustainable foundation.

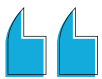
Dr. Tobi Petrocelli observed that the US Inflation Reduction Act (IRA) was going to be an enormous growth opportunity. It was the largest climate bill that's ever been seen, she said, and with it comes a great deal of momentum from private capital. She said when private investors see there's an opportunity for a client to access tax credit subsidies, grants, and so forth, coupled with capital from organizations such as MUFG, the economics will make a lot more sense to them. "And when that happens," she added, "you'll see an uptick in the momentum around innovation."

SUSTAINABILITY INNOVATION ACROSS GEOGRAPHIES

Wrapping up the discussion, Satish Weber asked the panel which geographies, in their view, were leading the way in terms of sustainability and innovation.

Matthew Sekol stated that the EU was clearly leading the way. The US was catching up, he said, and he was seeing a lot of good activity coming out of Canada. He said that the loss and damage that could be implicit in climate change was much discussed at COP27, and that financial services institutions would need to work with governments to help build more remediation and resilience into the system.

Dr. Tobi Petrocelli said that over the period when COP27 and the G20 summit had overlapped, MUFG had announced the Just Energy Partnership with the US and Japan on transition with Indonesia. Over \$20 billion worth of grants and concessionary loans was supplied to create more affordable energy, moving the country away from coal and into more renewable opportunities.



“We have to accept collectively as a society that there’s a change, and that it’s coming.”

Stacey Levine
Director, Capgemini Invent



WRAPPING UP: KEY AREAS OF FOCUS

For her final question, Satish Weber asked what people considered to be the one innovation in the sector that companies should invest in to achieve a greener future.

For Stacey Levine, the priority was to rewrite some of the risk models in insurance. It needs to be an aggregated collective view that would really shift the needle on the whole market. "I know," she said, "that pricing is going to probably not always be favorable, but maybe we have to accept collectively as a society that there's a change, and that it's coming."

For Dr. Tobi Petrocelli, the focus was on conservation activity. In terms of investment in tangible innovations, she mentioned carbon capture and storage, as well as battery storage. Those, she said, were going to be an absolute necessity if we were to reach any form of net zero.

For Stacey Brown, the aim needed to be to shift away from reacting to events with payouts, and towards a more preventative mindset. He pointed out that insurance has always enabled organizations to take risks they might not otherwise consider, and that if the entire way of thinking became more proactive, that could only be a good thing.

For Sankar Krishnan, the emphasis should be on waste reduction, but also on increasing lending to small and medium-sized organizations. These businesses, he said, represent around 80% of the GDP of any country, and so doing something to increase their chances of success would make a major impact.

Finally, for Matthew Sekol, what underpinned everything he and his fellow panelists had been saying was digital transformation. "We're at a really interesting inflection point now," he said, "where the pressures from sustainability and ESG are giving digital transformation real budget and purpose."

FUTURE-PROOFING INNOVATION:

The Financial Services panel

Satish Weber

Executive Vice President and Head of Sustainability Financial Services, Capgemini



Satish is an Executive Vice President at Capgemini with over 25 years of experience in technology and business consulting within the Financial Services Industry. Today, she is the Chief Sustainability Officer for Financial Services globally, with responsibility for Capgemini's capabilities to help clients set, achieve, and measure their own Net Zero and ESG objectives and commitments. Furthermore, Capgemini is committed to partnering with financial institutions to evolve their core capabilities to position them to drive greater resilience and equality across society and to build a more sustainable future. In this role, Satish is passionate about aligning with and supporting Capgemini's purpose: to build an inclusive and sustainable future for all, enabled by technology, drawing on the energy of Capgemini talents and also the talents of its customers and partners.

Sankar Krishnan

Executive Vice President, Head of Digital Assets & Fintech, Capgemini



Sankar is an accomplished executive and author with a career spanning over two decades in the banking and technology industries. He is currently the Executive Vice President and Head of Digital Assets at Capgemini, a leading technology services company with a global presence. In this role, Sankar oversees Capgemini's global go-to-market strategy for digital assets and is responsible for strategy and corporate development. Prior to joining Capgemini, Sankar held various roles at Citigroup and Standard Chartered Bank. He is also an active mentor and advisor to startups and serves on the jury for Innovators Race 50 and Global Finance Magazine's Innovators Edition.

Stacey Levine

Director at Capgemini Invent



Stacey Levine is a Director in Capgemini Invent's Insurance Practice. She has worked in Insurance, Wealth Management, Capital Markets, FS Marketing, Financial Reporting, Change Management, and System Implementation. Stacey co-leads the Invent North America Insurance offerings for the Innovation Value Realization Office, Marketing & Distribution, and Sustainability. She excels in fast-paced environments and has strong skills in complex program management. Stacey has worked on key projects focusing on target operating models, process optimization, portfolio marketing platforms and vendor selection for various financial services topics.



Matthew Sekol

Driving ESG, Sustainability, and Digital Growth, Microsoft

Matthew is a multi-disciplinary professional who empowers leaders to create change in their companies and the world through ESG and sustainability. He came into this space supporting Capital Markets and now works across industries to solve these complex challenges people, data, and technology. He writes about ESG and sustainability weekly to help shape the global narrative and continually learn. Recently, Analytica's named him to their "Who's Who in ESG" list.



Dr. Tobi Petrocelli

Director of Environmental and Sustainability Management, MUFG Americas

Dr. Tobi is a sustainability professional with a doctorate in Sustainability Management and LEED Accredited Professional. With a focus on accountability and transparency, she has over 18 years of combined experience in performance management, energy and environmental efficiency compliance, and capital systems oversight. As a dynamic and results-oriented business professional, she is committed to improving the efficiency of operations while maintaining a focus on sustainability.



Stacey Brown

President at InsurTech Hartford

Stacey is an executive with over 20 years experience in the insurance technology industry who has worked in leadership roles for some of the insurance industry's largest carriers. Stacey's carrier background is diverse with experience leading large programs, transforming organizations, and driving innovation. Stacey is also an InsurTech influencer, investor, and advisor most known for his role in jumpstarting one of the industry's most successful InsurTech ecosystems, InsurTech Hartford. Through InsurTech Hartford, Stacey has connection to a global network of industry leaders within carriers, brokers, startups, and investors.

About Capgemini

Capgemini is a global leader in partnering with companies to transform and manage their business by harnessing the power of technology. The Group is guided everyday by its purpose of unleashing human energy through technology for an inclusive and sustainable future. It is a responsible and diverse organization of over 340,000 team members in more than 50 countries. With its strong 55-year heritage and deep industry expertise, Capgemini is trusted by its clients to address the entire breadth of their business needs, from strategy and design to operations, fueled by the fast evolving and innovative world of cloud, data, AI, connectivity, software, digital engineering and platforms. The Group reported in 2021 global revenues of €18 billion.