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GOING GREEN IN DIGITAL BANKING: A CASE STUDY

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Abstract: *Climate-friendly banking is a critical component of a long-term civilization. A large majority of digital banking users are entrepreneurs, with many of them opening their first bank account. As a result, digital banks play an important role in ensuring that businesses employ a long-term banking partner from the start. At the same time, the corporation wants to meet its climate goals in a consistent and effective manner. To achieve this, several digital banks have chosen to follow the ESG (Environmental, Social, and Governance) model to assure environmental protection, consideration of people and relationships, and corporate governance requirements.*

Keywords: *ESG, Digital Banking, Sustainable Banking, Sustainable Development*

1. INTRODUCTION

Banks of all sizes are beginning to incorporate Environmental, Social, and Corporate Governance (ESG) into their business strategy as sustainability has emerged as a business-critical endeavor in banking and financial services [4]. The term "environmental, social, and corporate governance" refers to a method of assessing how far a company goes to advance social objectives beyond its basic obligation to make profits for its owners [3]. Commonly, the social objectives endorsed by an ESG perspective involve striving towards a certain set of environmental objectives, a set of objectives involving supporting specific social movements, and a third set of objectives involving determining whether the corporation is run in a manner that is consistent with the objectives of the diversity, equity, and inclusion movement.

Figure 1. ESG model

Sustainable banking has many advantages that are obvious. Banks and other financial institutions can gain a variety of advantages by effectively leveraging sustainability, including cost savings, improved operational efficiency, increased environmental friendliness, and the capacity to both retain and attract new consumers [1].

The process of globalization and domestic and international trade both rely on financial institutions. As intermediate organizations, banks move funds from savers to borrowers to encourage investments and company expansion [2].

The Principles for Responsible Investment (PRI) were developed by the United Nations (UN) in 2005 and they focused on ESG issues [9]. The 17 Sustainable Development Goals (SDGs) of the 2030 Agenda for Sustainable Development were further declared by the UN in 2015 [10]. The UN's 2005 PRI initiative demonstrated how ESG factors affect the success of investment portfolios. The appraisal of the companies was then gradually guided by principles for corporate governance, social responsibility, and environmental stewardship.

2. ESG CRITERIA

„The three elements of ESG investing are environmental, social, and corporate governance, and each one comprises a range of elements that may be considered by both socially aware investors and companies wishing to adopt a more ESG-friendly approach to operations“ [4]. There are several initiatives underway to produce more accurate, unbiased assessments of a company's ESG policies and practices.

Figure 2. Visual representation of three ESG criteria

2.1. ESG – Environmental

The usage of renewable energy sources, a company's waste management plan, how it handles any air or water pollution issues brought on by its activities, deforestation issues (if applicable), and its views and actions on climate change issues are all environmental considerations. The source of raw materials (does the business employ fair trade suppliers and organic products, for example?) and other environmental issues are other potential issues. and if a business upholds biodiversity standards on land it owns or controls.

2.2. ESG – Social

Social factors encompass a wide variety of possible issues. Even though ESG has many different social aspects, they are all primarily focused on interpersonal relationships. Many socially conscious investors view a company's connection with its employees as one of its most important ties. The following is a list of the possible considerations when evaluating how a company maintains its social relationships [4]:

- When compared to salaries for corresponding jobs or positions throughout the sector, is employee remuneration reasonable or even generous? What retirement plans are available to employees? Does the business make contributions to the retirement plans of its employees?
- What additional perks or bonuses are provided to employees above their base compensation or salary? If a firm provides advantages that aren't common at all businesses, like an on-site fitness center, or does things like providing a free buffet lunch to every employee every Friday, it may have a big impact on how ESG-conscious investors see the company.
- Workplace policies that support diversity, inclusivity, and the prevention of sexual harassment are frequently taken into consideration.
- What opportunities are there for employees to learn new job skills at the organization that would qualify them for positions with greater salaries? For instance, does the company provide financial aid for employees who want to continue their studies or flexible work schedules?
- What percentage of the employees participates in management? How much influence do employees have over decisions that are made in their specific departments?
- The rate of employee turnover.
- What is the mission statement of the business? Is it societally beneficial and relevant?
- How skillfully are consumer relations handled? Does the business interact with its clients on social media? How effective and quick-witted is the personnel providing customer service? Does the business have a troublesome track record with concerns about consumer protection, such as product recalls?

- Does the business publicly or politically support causes related to human rights? Does it make donations to nonprofit organizations?

2.3. ESG – Governance

Simply put, governance in the context of ESG refers to how a firm is led by those in positions of authority. How well do the board of directors and top management represent the diverse interests of the company's consumers, shareholders, and suppliers? Does the business support the area where it is based? Successful corporate governance is usually considered as requiring openness in finances and accounting, as well as thorough and truthful financial reporting. The board members' real fiduciary obligations to investors and their careful avoidance of any conflicts of interest are equally important. Are the management and board members of the organization a friendly and diverse group? Successful corporate governance is usually considered as requiring openness in finances and accounting, as well as thorough and truthful financial reporting. The board members' real fiduciary obligations to investors and their careful avoidance of any conflicts of interest are equally important. Are the management and board members of the organization a friendly and diverse group? The issue of CEO remuneration is a major worry for many ESG investors, and they, for example, often do not support executive bonuses of millions of dollars when the business maintains a salary freeze for all other employees. Is the increase in CEO compensation correctly correlated with the enhancement of the business's long-term value, viability, and profitability?

3. CASE STUDY OF GREEN BANKING: PENTA

Penta is an IT company that helps business– with its digital features, innovative tools and support. With Penta, users manage their financial activities from a single banking platform, including basic payments, accounting tasks, cost management, and credit management [7]. In order to empower creators and businesses for a sustainable and prosperous future, Penta's founding principles included rethinking business banking and making a constructive contribution to climate change. As part of its own sustainability initiatives, the business collaborates with Planetly to learn more about its carbon emissions and to choose the best course of action for long-term reduction [8].

Climate-friendly banking is a critical component of a long-term civilization. Startups make up the majority of Penta's clientele, and many of them utilize it to open their initial bank accounts. Therefore, Penta may be quite useful in assisting companies in making an immediate decision on a sustainable banking provider. The company wants to achieve its climate targets in a consistent and efficient manner at the same time. In order to accomplish this, Penta has decided to work with Planetly in order to understand, reduce, and offset its CO_2 emissions.

It won't just be a combination of traditional and internet banking that defines the bank of the future. A sustainable, environmentally sensitive digital lifestyle will be supported by and enabled by the bank of the future. Banks will be able to develop new revenue streams as more clients decide to bank with institutions that place a high priority on sustainability.

3.1. Penta's carbon footprint

Planetly closely examined all pertinent actions throughout Penta's business in order to determine the carbon footprint. This includes emissions that are created by acquired goods and services, other emissions that take place outside the organization, as well as direct emissions and emissions connected to energy. To make them addable and comparative, the various types of emissions are estimated as CO_2 equivalents, or CO_2e. In 2020, Penta had an overall carbon footprint of 862.97 t CO_2e [8].

The largest sources of emissions for Penta are the company's external service providers, such as the advertising, consulting, and marketing services they hire, followed by employee and building emissions. Customers that use online applications generate relatively few emissions. The results of Planetly's analysis of Penta carbon emissions can be found in Table 1.

Table 1: Analysis Results of Penta

Total carbon emissions	863t
Procurement emissions	680.88t CO_2e
Employee emissions	109.97t CO_2e
Employee emissions	68.84t CO_2e

Source [8]

Penta's initial objective was to reach CO_2 neutrality no later than 2022. Fist they wanted to know more about the composition of their CO_2 profile – so they calculated their CO_2 footprint. The next stage was to cut CO_2 emissions as much as they could. To offset their remaining CO_2 emissions, they additionally supported initiatives for climate protection that have Verified Carbon Standard or are CDM Gold Standard certified. As part of their commitment to their intended activities, their Chief Product Officer has also joined the Leaders for Climate Action (LFCA) group. They emitted 862.97 tons of greenhouse gases in 2020, which is nearly equal to the average annual emissions of 176 persons [5].

Planetly divided Penta's CO_2e emissions into three scopes in order to be able to determine the reasons of these emissions shown in Table 2.

Table 2: Scopes of Penta's CO_2e emissions

Scope	Causes	Share of footprint in 2020
1	Fugitive emissions	0.1%
2	Electricity	6.9%
3	Purchased products & services, commuting, capital goods, travel	93.0%

Source [6]

They also came up with further reduction strategies by segmenting their CO_2e footprint into four emission fields [6]:

- Procurement & Product: 78.9%
- Employees: 12.6%
- Building & Office: 8.0%
- Customers: 0.5%

The Penta Green Team, which explores reduction initiatives inside the organization and is overseen by the Penta climate officer, was formed to continue working on this issue and consists of eight individuals from various departments. Every aspect of the company, from office administrative services to advertising, merchandise, and technology, has been improved by the Green Team in order to get Penta closer to its net-zero goal [6]:

- Recycled Penta Cards with packaging composed of recyclable grass paper and made entirely of reusable PET-G plastic;
- A cloud and web hosting company that is climate-neutral;
- The Berlin office uses green energy;
- A combined work arrangement to reduce commute;
- Quarterly report to track their CO_2e reductions from working from home;
- Use of public transportation is free;

Since internal improvements take time to implement, they also chose a unique portfolio of climate protection initiatives that allowed them to retrospectively offset our 2020 emissions. All 17 UN Sustainable Development Goals (SDGs) are positively impacted by the high-impact portfolio they selected. This means that their offsets support social and economic development objectives in addition to having a positive influence on ecological projects. If the emission reductions attained by an offset project would not have happened without funding from the sale of offset credits, then the project meets the additionality requirement [6].

By doing all of this and more, Penta has been functioning as a carbon-neutral business since 2020 and has done so retroactively thanks to extensive compensation measures [5]. Banks that are sustainable exhibit resource-saving practices and make financial decisions that don't harm people or the environment. As a finance company that is rapidly expanding, Penta's duty is to provide their clients with future goods and services that will have a positive influence on their ability to reduce emissions. Their customer deposits are invested in accordance with the strictest sustainability guidelines, and no funds are provided to organizations that harm the environment.

4. CONCLUSION

The bank of the future won't just be one that combines the experiences of traditional and online banking. The bank of the future will support a sustainable, eco-conscious digital lifestyle and be an enabler of it. As more customers choose to bank with companies that prioritize sustainability, this will allow banks to create new revenue sources. Companies that embrace a sustainable business model receive a competitive edge in addition to helping society and the environment. Naturally, this is assuming that the subject is taken seriously and that their efforts are openly reported on and shared.

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