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Greenwashing: How fintechs can help address the trend plaguing green investing

Article

What's been on our mind: Environmental, societal, and governance (ESG) strategies have emerged as a major growth vector for investment managers—but fears that **greenwashing**

could be rife pervade the investment world.

More on this: Global inflows into ESG funds exceeded **$178 billion** for Q1 2020, a surge of around **27%** YoY, according to **Morningstar** research. The composition of ESG funds as a proportion of total funds has grown significantly over the last few years: **Twenty-four percent** of total inflows were ESG-labeled between January-May 2021, more than doubling from **11%** in 2018.

ESG strategies have taken center stage largely thanks to a spike in interest from investors across all demographics. In particular, the younger generations have a high appetite for ESG investing: **Sixty-one percent** of global Millennial investors are interested in ESG investing, per Refinitiv.

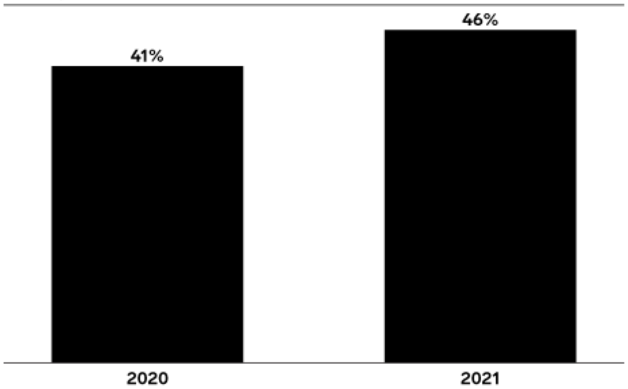
Here's the issue: Allegations of rampant greenwashing threaten to pop the green bubble. The SEC is concerned that ESG funds might mislead investors.

ESG ratings currently rely on corporate disclosures, yet without established global standards, questions arise about the ratings' validity. Concurrently, on average each of the 20 largest ESG-labeled funds holds 17 investments in fossil fuel producers—including oil giants, such as **ExxonMobil**, per research from The **Economist**.

What does this mean for fintech? B2B fintechs have an opportunity to strike partnerships with investment managers and proffer their AI-powered data analysis solutions to help more accurately establish the ESG ratings of the companies in their portfolios.

Demand would run high for a fintech that possesses the data capture and analytical capabilities tomine alternative data and uses its capabilities to screen out firms with lower ratings and give positive ratings to companies with a low carbon footprint. For example, global FI **Citi** partnered with ESG data provider **Truvalue Labs**last year, tapping into the fintech's AI-powered technology to analyze company ESG behavior at scale.

Sustainable Investing Allocation of High-Net-Worth individuals (HNWIs)* Worldwide, 2020 & 2021
% of portfolio



*Note: *defined as having more than $1 million in investable assets*
Source: Capgemini, "World Wealth Report 2020" in collaboration with Scorpio Partnership, July 9, 2020

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