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Building green finance in Asia



The Singapore Green Finance Centre aims to bridge the gap between research and business, says SMU Professor Dave Fernandez.

SMU Office of Research & Tech Transfer - Back in November 2019, the Monetary Authority of Singapore (MAS) put sustainability front and centre at the Singapore FinTech Festival (SFF), making it a key theme of the event and announcing a US\$2 billion green investments program (GIP) to promote "environmentally sustainable projects and mitigating climate change risks in Singapore and the region".

Within a year, SMU Lee Kong Chian School of Business and the Imperial College Business School launched the MAS-funded Singapore Green Finance Centre (SGFC). Its goals include building "a new ecosystem for sustainable investing in Asia, attracting mainstream investment towards the biggest developmental and economic challenge of our time: climate change".

The way to do this, the SGFC says, is "through high-impact research, outstanding educational programs and new talent development".

"These emerging areas of research... are not yet well established in the academic literature at this point," notes Dave Fernandez, Professor of Finance (Practice) at the SMU Lee Kong Chian School of Business. "There's a gap between what the business community and society said we need and what academics are currently working on. And so we said, 'We want to try to help bridge that gap with the SGFC.'"

Bridging research for business

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Together with nine founding partners in the finance industry, the SGFC's research will focus on three themes:

- a. transforming businesses by integrating climate-related data and environmental, social & governance (ESG) considerations into decision-making;
- b. designing policies and new initiatives that can improve the efficiency of green finance markets; and
- c. catalysing the development of green finance solutions.

Professor Fernandez, who also leads the SMU Sim Kee Boon Institute (SKBI) for Financial Economics, acknowledges that there is considerable risk for young faculty embarking on research in this area.

"If you are a young or assistant professor on a tenure track, you tend to follow a path that will allow you to achieve tenure," Professor Fernandez explains, while expressing optimism that green finance will catch on as a research subject. "I think this has legs as do our other emerging research areas: financial technology, financial inclusion and education, data and governance.

"Those are SKBI's four areas and the reasons we marked them out, including sustainability, is that number one, we know that society and industry are saying they want more research on this. But we also think that these areas of research will eventually be established as an academic field where junior professors can say, 'I will bet my career on this.'"

Professor Fernandez points to organisations such as the Global Research Alliance for Sustainable Finance and Investment (GRASFI) as evidence of green finance as a viable academic path, adding that SMU recently became the first Southeast Asian university to become a member. The SGFC plans to promote research in green finance "by raising awareness, providing financial support, and connecting [researchers] with industry and with other academics".

However, all that would work only if industry buys in.

"When you think about capitalism and certainly the finance community, no one is going to move a muscle unless there's money to be made," notes Professor Fernandez, who spent over two decades as chief economist and market strategist in the banking sector. "There's a broader shift in society where people also recognise the problem and want to change their behaviours; this creates opportunity.

"Part of it is that regulators are also shifting and saying, 'Perhaps you're not properly taking into account the risks in your portfolios, risks that come about because of climate change.' Regulators might require infrastructure investment to move into these new technologies, and these need to be financed."

Professor Fernandez tells the Office of Research and Tech Transfer that most firms lack expertise and experience in this area, and therefore "whole new teams need to be brought on board, new systems, new methodologies need to be established in order to take those risks properly into account".

"But the part which is most exciting to me is the opportunity and possibility for new financial products to be developed," he adds. "There's an enormous shift that's occurring and it's only the start in asset allocation of large institutional funds to individuals who have not held any assets."

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He concludes: "Green finance came about belatedly because the financial opportunity of the needed change has finally been realised."

The perfect partnership

The SGFC will be a collaboration between SKBI and the Centre for Climate Finance and Investment, Imperial College London. Professor Fernandez describes Imperial College as the perfect partner because its climate programme started four years earlier and thus will accelerate the SGFC's development of a similar programme with an Asian focus.

"Imperial College will focus more on climate risk scenarios," he explains. "So, thinking about... potential outcomes for sea level rise or temperature changes, and then translating those into impact on assets and creating risk models to put that into portfolios of banks and asset managers."

"In terms of what SMU will work on, we're focusing this year on standards and measurement. It's a very challenging discussion globally: What are we talking about when we want to know if a company is contributing to climate change? How do we measure that?"

An SKBI working paper titled "Impact assessment and measurement with sustainable development goals" seeks to answer that question by "focus[ing] on quantifying, valuing, and aggregating the different kinds of impact - direct vs. indirect, absolute vs. marginal - for different stakeholders, and is highly implementable".

"Once we have the measurement of, say, emissions, what standards do you then set? What would be an acceptable level? It's a fundamental question, and one where we feel that within this global conversation, the profile of Asia has not fully been taken into account. So that's the area that SMU is currently focusing on, the question of standards and measurement and trying to bring more of an Asian perspective to that conversation."