



# Leadership Actions for a More Sustainable Financial Services Industry



# As providers of capital to other industries, financial services firms have a big opportunity—and obligation—to lead the way on sustainability

**Sustainability is now *the* defining issue of our time.**

Society, employees, investors, and consumers are looking to financial services firms to curb their environmental footprint, prioritize DE&I, boost employee wellbeing, and positively impact the world around them.

The transition to sustainable business practices for the sector will demand a total rethink of strategy and operational models, spearheaded by sustainable leaders. These executives can balance viewpoints from a range of stakeholders, incorporating financial, environmental, and social themes into business strategies to position their firms for long-term success.

We set out to understand the progress financial services firms have made so far—and how leaders can accelerate their sustainability journeys, unlock commercial success, and build a greener, fairer future for all.

# A global benchmark of Financial Services leaders

We set out to understand the maturity of financial institutions' sustainability journeys—and how ready Financial Services leaders are to lead the agenda

## Our Coverage

99

Financial Services C-suite executives

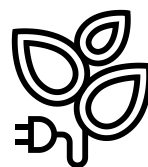
162

Next-generation\* Financial Services leaders

528

Financial Services employees

## Focus Areas



Progress made towards sustainability

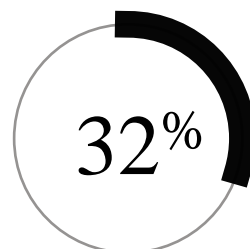


The barriers to sustainable business

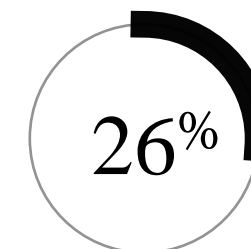


How prepared executives are to lead the agenda

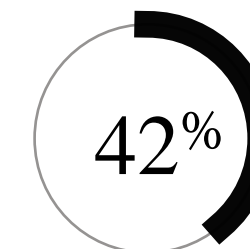
## Global Reach



Americas



EMEA



APAC

\*Defined as C-Suite or other direct reports to the CEO

# 01

## The sustainability advantage

A watershed moment exists for the Financial Services industry. The transition to sustainable business practices has the potential to create immense value for a multitude of stakeholders.

# Sustainability has become increasingly top-of-mind for Financial Services leaders...



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"Our 2025 ambition is to move Allianz from being a leading company in its own right, to **being a shaper of sustainability for our industry and beyond**. Having a clear sustainability approach enables us to understand risks and opportunities and mobilize our global businesses to create real-world impact in the economy and for society."



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"As a fiduciary, BlackRock is committed to helping clients build more resilient portfolios. Since sustainable investment options have the potential to offer clients better outcomes, the Company is **making sustainability integral to the way BlackRock manages risk, constructs portfolios, designs products, and engages with companies.**"



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"In 2021, we made further progress toward our goal of **supporting \$750 billion in sustainable financing, investing and advisory activity by 2030**. By year end, we had achieved approximately \$300 billion of our goal, including \$167 billion in climate transition, \$50 billion in inclusive growth and the remainder in multiple themes, reflecting our clients' need for advice, capital and tools to support their sustainability goals."



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"The finance sector has an important role to play in helping to address some of the most pressing environmental and social challenges of our time; **targeted capital is vital to seed, fund and scale solutions**, whether helping address the racial wealth gap or advancing solutions and innovations needed for the low-carbon transition."

# ...stemming from a maelstrom of market changing trends

## These macro trends will continue to drive the sustainability agenda across the Financial Services industry

### Consumer demand is evolving

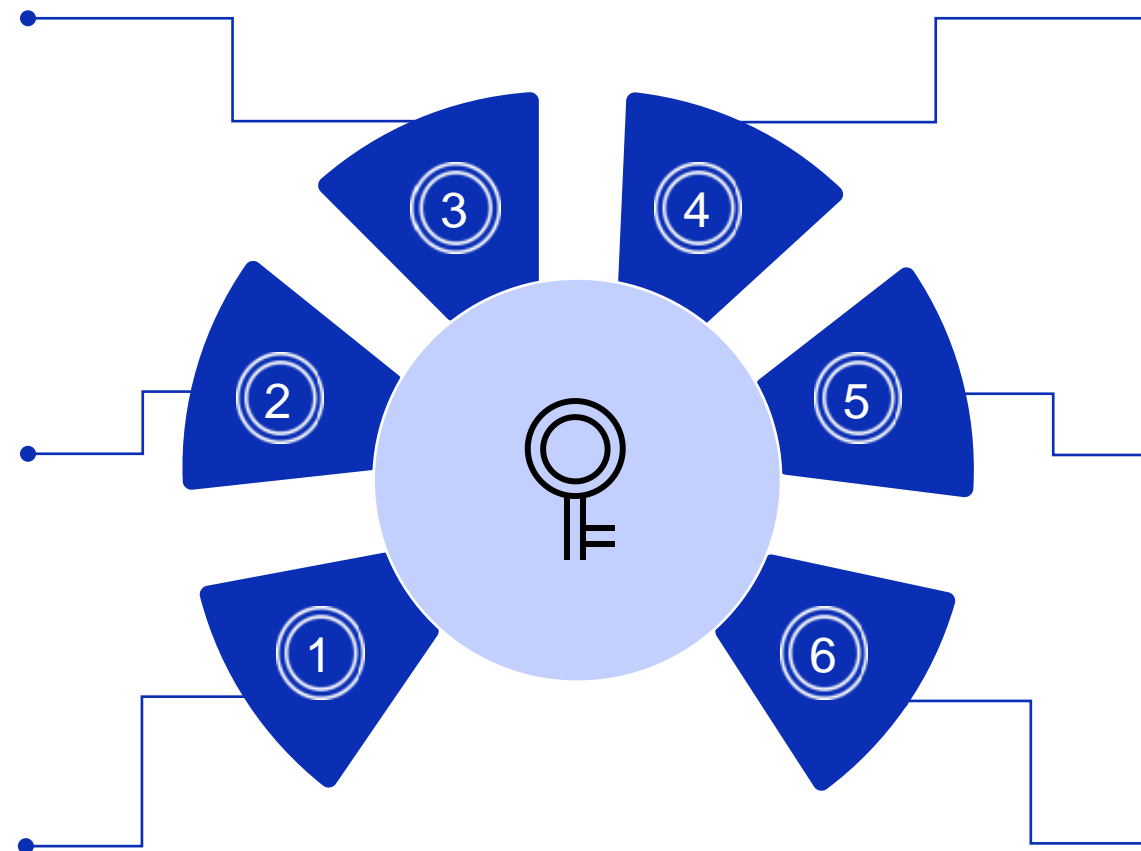
- According to a 2021 survey from Morgan Stanley Institute for Sustainable Investing, four in five U.S. individual investors remained focused on sustainable investing during the pandemic – amongst Millennials, almost 100% indicated interest in sustainable investing

### Investors are stepping up

- The California State Teachers' Retirement System, the second-largest pension fund in the U.S. with more than \$300 billion in assets, recently announced that beginning with the 2022 proxy season, it will oppose directors who are moving too slowly on diversity and climate change and support shareholder proposals that seek to reduce carbon emissions

### Regulators are closing in

- In 2021, the EU introduced the Sustainable Finance Disclosure Regulation (SFDR) to prevent greenwashing and increase transparency around sustainability claims made by financial market participants. Similar US policies are in formative stages



### Employees are standing up

- Young people are actively choosing to work for employers with sustainability at the forefront of how they operate, with many even willing to take a pay cut to do so. In a recent survey, 65% said they would be more likely to work for a company with robust environmental policies, however, 83% think their employer is not doing enough to be more sustainable

### Technologies are advancing

- ESG Book, a global leader in sustainability data and technology, recently announced it has closed \$35 million in Series B funding to advance its next generation technology capabilities. Partnering with Energy Impact Partners, Meridiam, and Allianz X, the ESG platform is entering a new era of growth and transformation

### Sustainable companies are more resilient

- Research shows that companies with strong sustainability management are better prepared in the face of crises. Between January 1st and March 25th of 2020, FTSE 100 stocks fell by 33.7%, whereas FTSE 100 ESG-select stocks only fell by 27.3%

# There is broad understanding among Financial Service leaders that sustainable business practices have long-term benefits

01 


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More engaged and loyal employees

02 

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Stronger partnerships and alliances

03 

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More future-proofed business / lower risk

04 

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More efficient / lower-cost operations

05 

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New product potential / top line growth

# 02

## The story so far

Despite a host of commitments and statements, Financial Services firms have yet to make significant strides towards sustainability, with the key barriers being organizational bureaucracy and culture.





# In most financial institutions, sustainability is not yet infused across strategy or operations...

Only

37%

of financial services C-suite leaders say their organization has a **sustainability strategy** that's been acted on and clearly communicated.

Only

34%

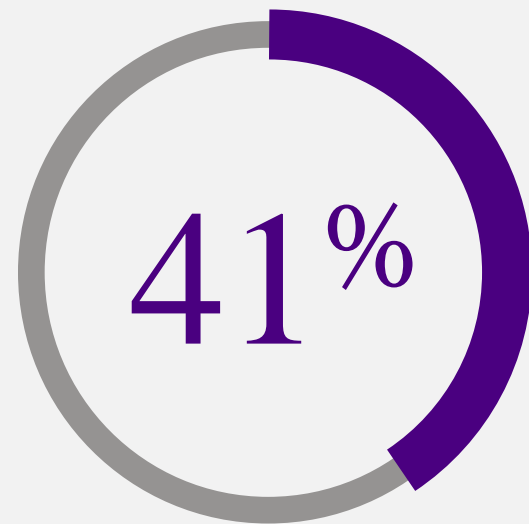
of financial services C-suite leaders expect to make **significant/great deal of progress** embedding sustainability across strategy and operations in next 5 years.

Source: RRA Divides and Dividends Study

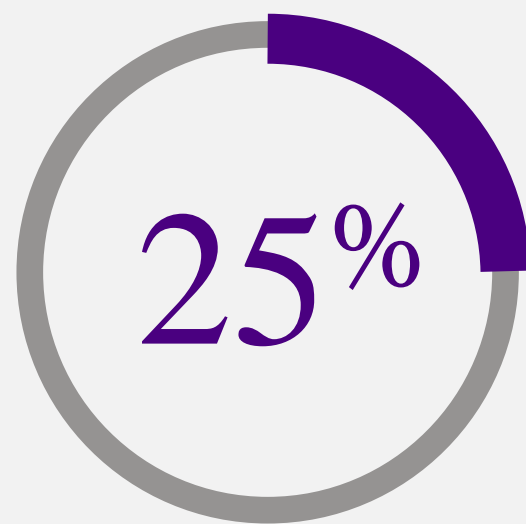
...and despite growing awareness of its long-term benefits, sustainability is largely still viewed through a branding lens

Top motivations behind current sustainability actions

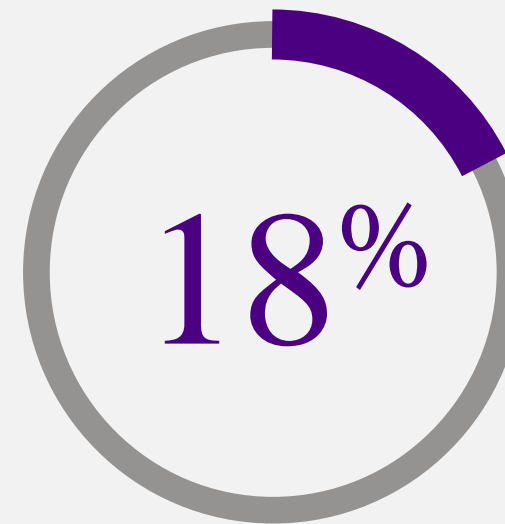
Brand management



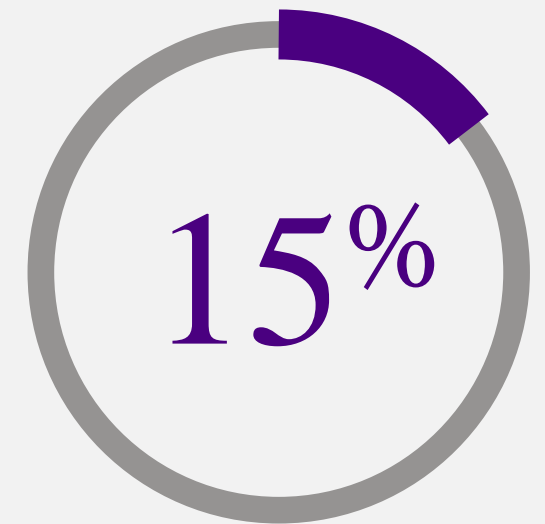
Value creation



Impact reduction



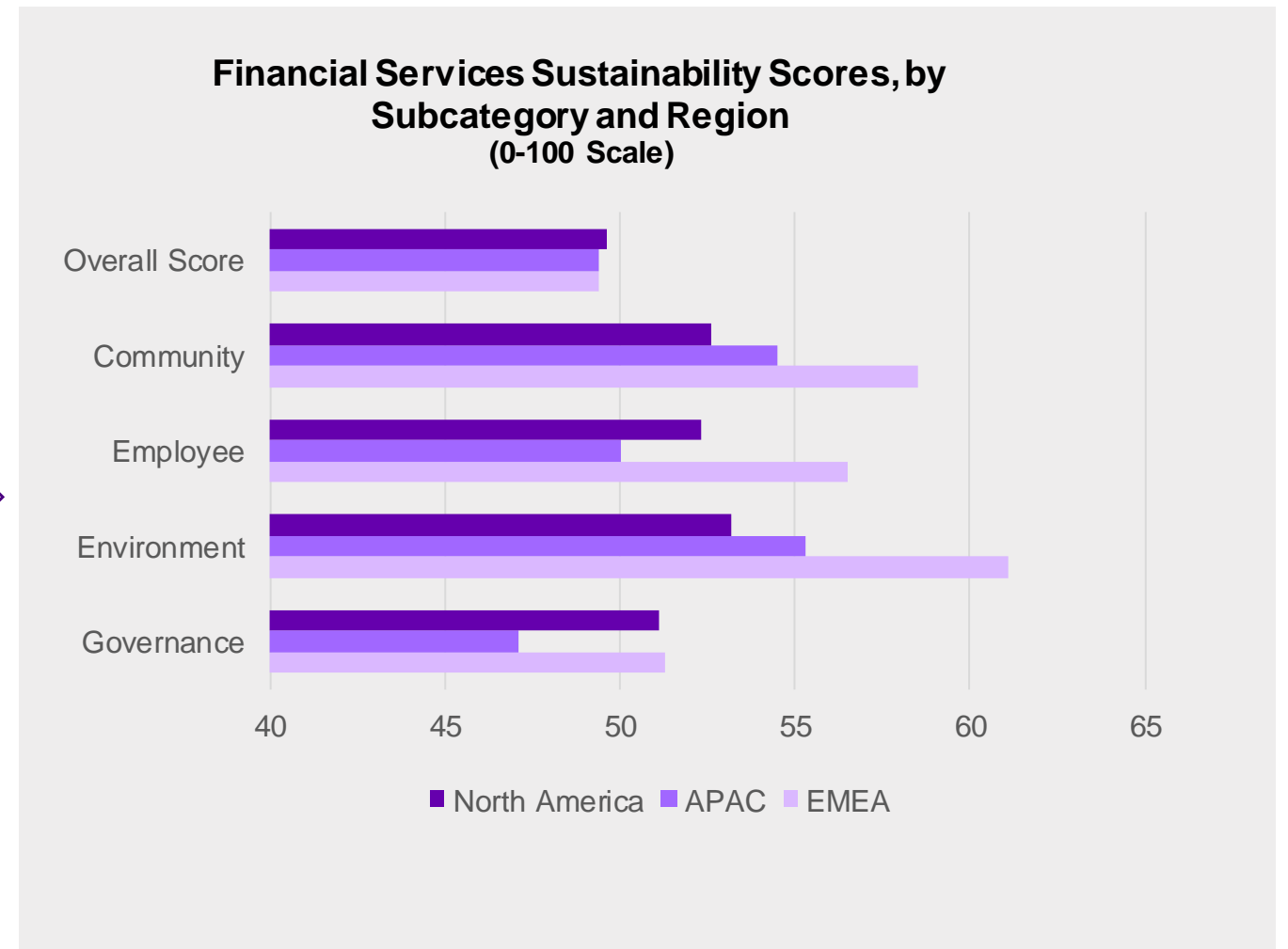
Risk avoidance



Source: RRA Divides and Dividends Study

# This is reflected in the relative underperformance of the Financial Services sector when it comes to sustainability efforts

Globally, Financial Services has one of the lowest sustainability ratings of any sector. Governance is the greatest area for improvement, especially in APAC.

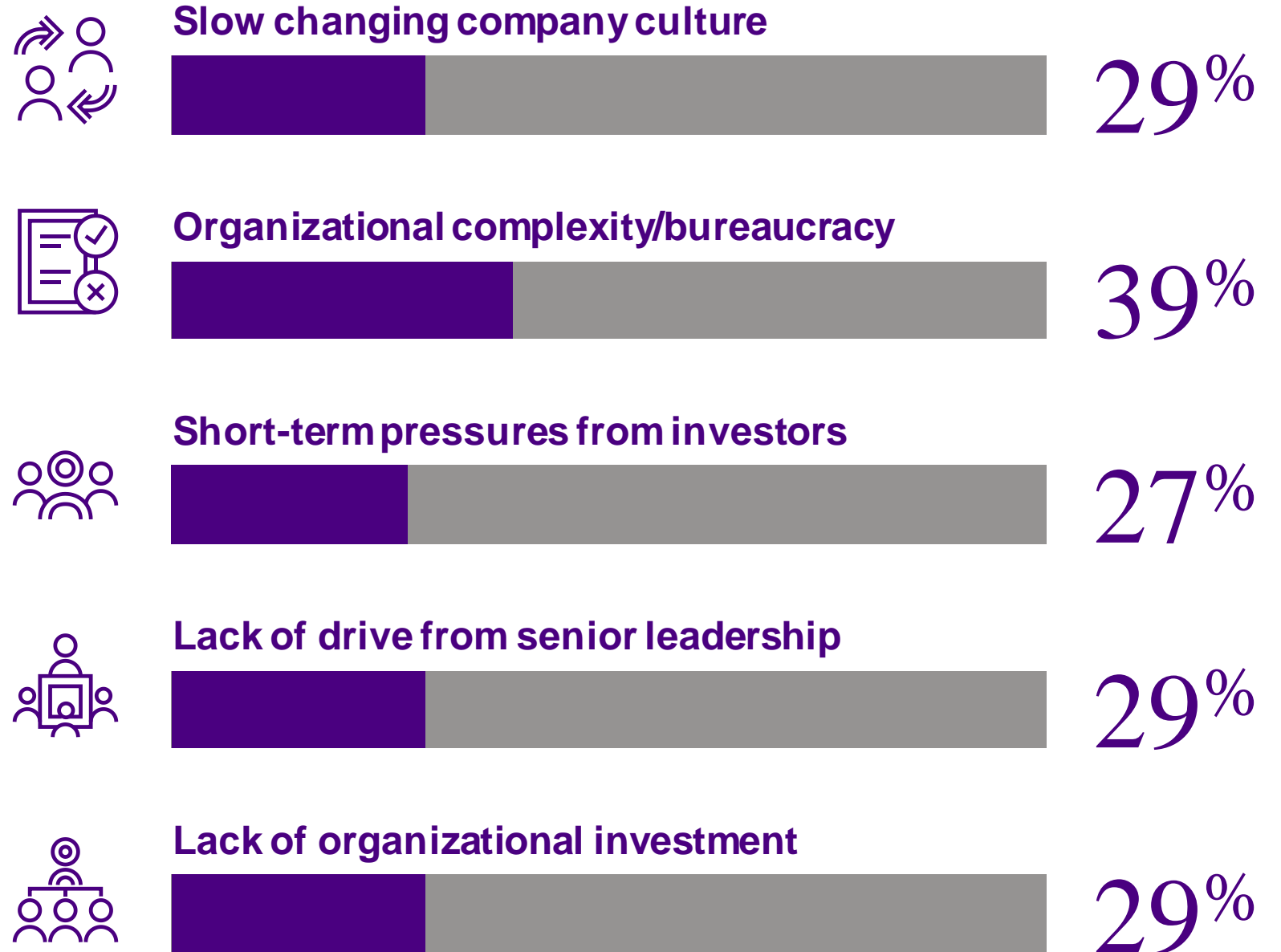


Notes on methodology: RRA analyzed sustainability scores of almost 2000 companies across sectors and regions (Forbes 2000), sustainability scores are determined using CSRHub's database which aggregates thousands of data sources including other rating systems such as GRI and MSCI; Sustainability performance is measured in 4 primary categories and 12 subcategories  
 Source: CSRHub; N=1829; Financial Services N=570; RRA Analysis

# Overcoming organizational barriers will require bold choices on the part of Financial Services leaders

Removing bureaucracy and changing company culture will not happen overnight. But these barriers must be addressed if financial institutions wish to stay relevant and competitive. Action must start at the top.

## Greatest barriers leaders face in embedding sustainability



Source: RRA Divides and Dividends Study

# 03

## How leadership can pave the way

Sustainability action starts at the top. Putting in place a strong leader who can “own” the sustainability agenda across the organization is an important first step. However, in order to truly embed sustainability, companies can’t just have sustainability leaders, they need sustainable leadership.

# In order to make true progress on sustainability, there are three key leadership actions financial services firms must take

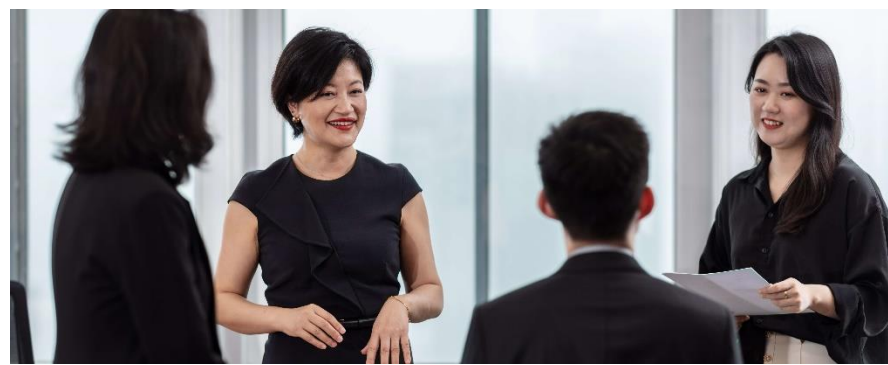
## 01

Appoint a top sustainability leader who can own the agenda firm-wide, and create a reporting structure that enables them to succeed



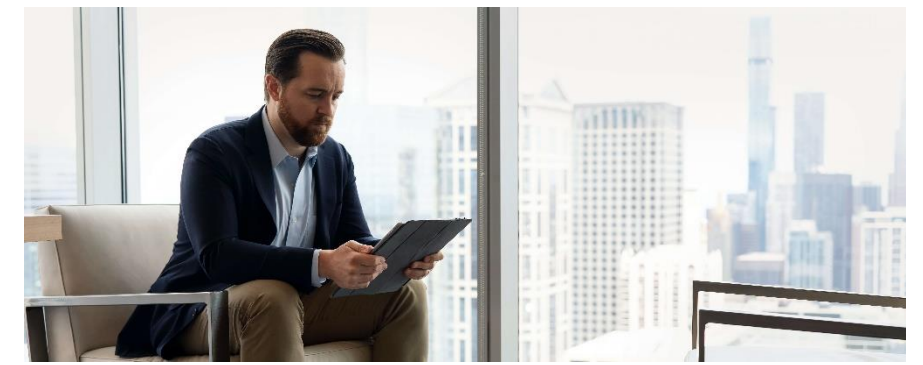
## 02

Equip all senior leaders with sustainable leadership skills, and embed sustainability into your leadership culture



## 03

Identify and empower up-and-coming next-generation leaders, providing them with impactful pathways and opportunities



Financial institutions that successfully adopt these leadership strategies will be the best positioned to unlock growth opportunities, boost resilience, and maintain relevance.

# Appointing a strong leader who can own the sustainability agenda across the organization is an important first step

When hiring for such a role, it is critical to find the right mix of competencies, experiences, and skills that aligns with your organization's sustainability strategy and goals. In analyzing the backgrounds of 26 recently appointed senior sustainability leaders\* in Financial Services, we found that the most common functional background of these leaders include Sustainability, Finance, and Marketing & Communications.



**50%**

of the newly appointed leaders are **female**, which contrasts with traditional male domination in other senior roles



**35%**

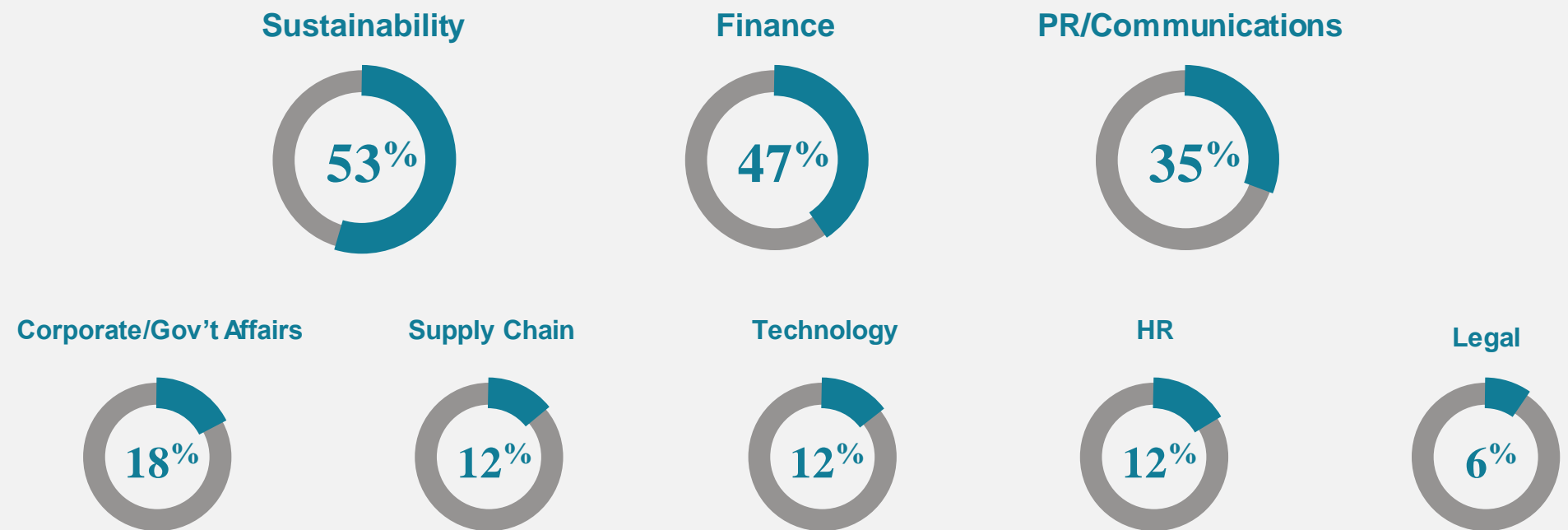
were **appointed externally**, a rate that is comparatively lower than other sectors



**2.1 years**

Is the average tenure of these leaders, with the majority joining in **2020**

% of Sustainability leaders with functional backgrounds in:



Source: RRA Analysis; includes recent appointees at 26 Financial Services companies

\* Titles include Group Head of Sustainability, Head of ESG, Chief Sustainability Officer, Global Head of ESG, Head of Sustainability and ESG Finance, etc.

# Beyond appointing strong sustainability leaders, firms must also ensure that all senior leadership demonstrate sustainable leadership traits

Unfortunately, our research shows many senior Financial Services executives currently lack the skills that are needed to embed sustainability across their organizations.

I agree that the senior most leaders at my organization display:

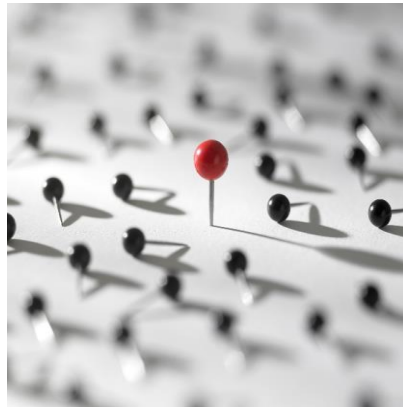


Source: RRA Divides and Dividends Study



# Sustainability should be embedded into leadership culture throughout selection, succession, reward, and development

## Selection



Ensure boards and CEOs apply sustainable leadership potential and track record as key criteria when selecting senior leaders

## Succession



Embed conversations about sustainable leadership potential into your succession management framework and succession planning

## Reward



Integrate sustainability into the objectives, incentives and remuneration of Board members, CEOs and executives

## Development



Make sustainable mindset and leadership attributes a core focus of leadership development and crucible experience



At the heart of this journey are next-generation leaders, who are already driving an ambitious agenda – but they need to be empowered

41%

**of next-generation leaders have taken on 3+ job responsibilities in the past 2 years.**

**Top actions:**

- Changing internal processes
- Identifying new ways to make products/workplace more sustainable
- Creating or redesigning products/services to reduce their environmental impact

04

How we can help

# How RRA can help



## Board advisory

“My company’s board needs to understand stakeholder perspectives and embed a sustainability lens in their decision-making”



- Analyze stakeholder priorities and identify opportunities to strengthen board oversight of ESG risks and opportunities
- Assess strengths and weaknesses of board composition against sustainability strategy
- Assess board culture, structure, and director onboarding/education vis-à-vis sustainability strategy



## Leadership advisory

“My company’s leadership needs to embed a sustainability lens into their team and organizational culture”



- Build a Top Team culture that equips it to engage with the complexities of sustainability
- Assess and develop sustainable leadership capability in executive teams
- Embed sustainable leadership into succession planning
- Use Culture Analytics to understand how culture can hinder or enable the sustainability journey



## C-suite and board search and selection

“My company needs to embed a sustainability lens across our C-suite and board”



- Identify and assess CEOs, board and C-suite leaders for a sustainable mindset and leadership capability



## Sustainability/ESG leader search and selection

“My company needs help identifying executives to lead our sustainability and/or ESG strategy, business units, or investments”



- Identify and assess Chief Sustainability Officers and Heads of ESG
- Identify and assess Sustainable Finance leaders
- Identify and assess leaders for sustainability-oriented business units

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