Innovation in Sustainable Finance: Opportunities for Jersey

A Discussion Paper

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1. Introduction

This discussion paper has been prepared by Jersey Finance Limited (Jersey Finance) and is based on a combination of desktop research, the output of a series of innovation-focussed industry workshops and discussions with gatekeepers.

This paper sets out to answer three key questions:

1. What is sustainable finance innovation?
2. How is sustainable finance innovation relevant to Jersey?
3. How can Jersey develop and harness sustainable finance innovation?

Sustainable finance innovation is expected to become a factor of competitiveness and resilience for Jersey as an international finance centre (IFC). Our ability to deliver an innovative approach to scaling up sustainable finance will increasingly come to define our standing as a finance centre that is able to meet client requirements as well as the expectations of wider stakeholders including employees, gatekeepers, our community and Jersey's global partners.

Sustainable finance innovation comes in many forms but in a Jersey context it is expected to include:

- Service innovation
- Innovation in deploying flows of capital to sustainable objectives
- Digital and fintech crossovers
- Innovative approaches to skills and capacity building
- Harnessing new financing mechanisms to deliver Jersey's net zero plans

Jersey is already seeing examples of innovation in sustainable finance being developed organically. Delivering a truly innovative environment for sustainable finance that allows us to capture opportunities and mitigate risks associated with the transition to a sustainable economic model requires action by all stakeholders in Jersey. The key proposals from the paper in terms of innovation in sustainable finance in Jersey are as follows:

- To position Jersey as a centre for sustainable Debt Capital Markets (DCM) issuance and assess the role of specific incentive programmes in this area
- Jersey Finance to actively encourage members to adopt industry frameworks such as the UN Global Compact
- Local initiatives to broaden access to skills
- Creation of a Sustainable Finance Hub
- Create opportunities that provide incentive schemes to help accelerate sustainable finance in Jersey

2. Why is innovation important in the context of sustainable finance?

Sustainable finance can play an essential role in supporting a just and inclusive transition in line with global commitments such as the drive for net zero under the Paris Climate Agreement and the wider 17 UN Sustainable Development Goals (SDGs).

To do so, however, innovation is sorely needed. In the face of new and pressing challenges, the financial system needs to adapt at pace. To help do this, sustainable finance needs innovative services and products that:

- Catalyse much more capital, mobilise trillions of dollars of investment in developed and, crucially, developing economies
- Democratise its access and impact, becoming mainstream across the financial sector
- Standardise to raise quality, improve transparency/comparability, and reduce complexity
- Address market failures, such as the incorrect pricing of assets for climate risk

A further dimension to innovation which is relevant to Jersey as an IFC of choice is competitiveness. Adopting a forward-thinking, innovative approach to sustainable finance is increasingly seen by finance centres as a driver of international competitiveness.

3. What do we mean by sustainable finance innovation?

Adapting a "traditional" classification of financial innovation

Typically, financial innovation is divided into three types – product, process and institutional.

For the purposes of this paper, which focusses on the concept of "sustainable finance innovation", we can define these categories of innovation as follows:

- "**Process/Service innovation**" relates to the development of new financial services and processes to support the deployment of capital in a way which delivers on sustainable objectives for clients and institutions. This could include ESG consultancy, impact advisory services, data analytics and reporting solutions. It also includes early alignment or adoption by financial services firms of emerging voluntary standards in terms of best practice.
- "**Product innovation**" encompasses new financial mechanisms, instruments and investments designed for aligning capital flows to objectives such as the net zero transition and the 17 SDGs. Examples include sustainable bonds, sustainability-linked loans, labelled fund products, green derivatives, together with the relevant frameworks and standards applicable to these instruments.
- "**Institutional innovation**" relates to the advancement of the financial system as a whole and the supporting infrastructure. This can include the establishment of new organisations or initiatives to develop sustainable finance within the finance centre.

It can also relate to innovative approaches in terms of policy, regulation and incentives to drive the growth of sustainable finance.

Scoping the dimensions of sustainable finance innovation in a Jersey context

In the context of Jersey as an intermediator of cross-border capital and a specialist finance centre, the following dimensions are expected to be particularly relevant (and therefore form the key areas of focus for this paper):

- **Process/service innovation**: industry engagement tells us that process and service innovation is expected to be particularly relevant for Jersey. Innovest Advisory is a Company in Jersey, demonstrating an example of service innovation as it works to embed impact into investment processes, helping managers of private capital generate measurable positive sustainability impacts through their investment strategies.
- **Product innovation**: feedback from industry and gatekeepers confirms that it is unlikely that Jersey would develop an entirely new sustainable financial instrument or mechanism organically. However, product innovation may be relevant to our sustainable finance journey in two ways:
    - Jersey might carve out a niche as a jurisdiction of choice for the issuance of certain types of sustainable finance instruments to support the real economy in other centres – leveraging Jersey's existing credentials as a centre for DCM issuers and its recent success in attracting collateralised loan obligation (CLO) structures. Our "innovation" in this space may be limited to simply improving the process by which we can support such instruments.
    - Jersey may be able to take advantage of new and innovative financial products or mechanisms to help finance its own transition to net zero.
- **Institutional innovation**: our engagement suggests that institutional innovation could be relevant in Jersey as part of a wider set of enablers and incentives for sustainable finance. Examples include the creation of a sustainable finance hub, or other "accelerator" mechanisms and incentives.

4. The business case for innovation in Jersey

Sustainability and sustainable innovation are increasingly seen as key drivers of competitiveness and long-term value for corporates, finance centres and nation states alike. Jersey's industry vision for sustainable finance is:

"By 2030, Jersey will be recognised by its clients, key stakeholders and other partners as the leading sustainable international finance centre in the markets it serves."

For it to succeed, it is important for Jersey to focus on sustainable finance innovation as a driver of competitiveness, credentials, client solutions and recognition as a sustainable IFC.

Defining our ambitions for sustainable finance innovation

The role for Jersey's key stakeholders – Government, Jersey Finance, the JFSC and industry leaders – is first and foremost to create the conditions where innovation can flourish.

A survey of the Jersey Funds Association by Jersey Finance in 2022 demonstrated that 63% of respondents felt that Jersey should position itself as an 'Early Adopter' when thinking about the emergence of a global regulatory standards and policy measures for sustainable finance, with 19% saying 'Early Majority' and 19% 'Innovator'.

A Jersey-centric definition of sustainable finance innovation, reflecting our ambitions and role in global finance, could therefore include:

- Organically developing new products and services in Jersey to help support our clients in meeting their sustainable finance objectives
- Deploying, adapting or tailoring services or products in Jersey that support sustainable finance and are not widely available in comparable specialist IFCs
- Being an early adopter for institutional innovation, i.e. the adoption of global standards and tools or the creation of new structures and incentives
- Harnessing innovative financing mechanisms that can help Jersey make its own transition to a sustainable economy, establishing Jersey's lead as a sustainable island

5. Opportunities for service innovation

In this section, we consider opportunities for service innovation in relation to sustainable finance, as a way to drive growth.

Capitalising on growth in the Alternative Funds Sector

Jersey Finance conducted a series of surveys and gatekeeper engagements to understand what the future of Jersey as an innovative finance centre could look like.

The feedback from this process tells us that sustainable finance innovation in a Jersey context should be accretive to our existing offering as a specialist finance centre.

A survey of funds sector professionals indicated that the largest perceived opportunities for Jersey in the alternative funds space were around service innovation – supporting the development of ESG in the alternative funds space through tailored administration and compliance services, together with assurance and audit of sustainability claims.

Paragon +Impact is a Company in Jersey that provides an example of the type of technology-based solutions that are finding applications in the alternative funds space as a way of helping to measure and demonstrate the impact of capital against global sustainability objectives.

Opportunities for innovation in private wealth

In many respects, the opportunities that sustainable finance innovation can offer in the private wealth sector are similar to those outlined above – particularly when it comes to measuring the sustainability impact of investments in non-liquid assets, private capital investments and similar "alternatives". As a result, some of the innovations that have been developed by Jersey providers, such as Paragon +Impact and Innovest Advisory both have applications in the private wealth sector as well as in the funds space.

Beyond those crossovers, private wealth structures of the type and size which Jersey specialises in require particular expertise when it comes to governance. In that space, service innovation is emerging which seeks to embed private family values around sustainability into the administration and governance of wealth. Examples include the types of service now being offered by Ogier[1], which are innovative insofar as they constitute an integrated offering that blends legal advice, governance and ESG consultancy.

Another example is how Affinity Private Wealth, a Jersey Company, through their close work with a multigenerational family have supported them towards focussing their philanthropic interest towards a conservation project, which has resulted in a Jersey Foundation becoming the owner of 7,650 hectares in Scotland (76.5 sq km), and Affinity have leased this land to Durrell, who will oversee the rewilding efforts through a newly formed charity for 100 years.

How can Jersey accelerate sustainable finance through service innovation?

Input from industry and gatekeepers suggests that the critical factors in terms of accelerating service innovation revolve around:

- Embedding sustainable values in the organisational "DNA" of financial services firms
- Developing a clear understanding of the shifting needs and objectives of clients
- Ensuring the right skills mix at all levels of the financial services firm
- Harnessing technology to streamline ESG-driven processes
- A policy framework in Jersey that provides the right balance of enablers, safeguards and incentives to support the growth of sustainable finance

These success factors are all about creating the foundations for innovation to flourish. The working group suggested two initiatives that could help in that regard. One being industry upskilling initiatives, such as Jersey Finance's SDG Alignment Tool, which was launched in December 2023 and offers practical learning opportunities for our Members of how their activities impact the SDGs. The second is encouraging voluntary uptake of global standards and frameworks, such as the UN Global Compact and it was suggested that Jersey Finance should actively encourage members to adopt frameworks of this type, perhaps incentivising

[1] See: https://www.ogier.com/services/private-wealth-and-esg

members who do by inclusion within a specific member directory for sustainable finance for example.

Both of these initiatives can be supported through the creation of the Sustainable Finance Hub described in Section 9.

6. Aligning international financial flows to sustainable objectives and opportunities for product innovation

As detailed in Section 4, we should keep in mind the remarks, that Jersey's role in this space is likely to be around supporting innovative financial flows and mechanisms towards meeting the needs of the real economy as part of the sustainable transition. Industry and gatekeeper input suggest that this will mostly mean adapting our existing structures to new innovative uses, rather than the creation of wholly new products per se.

Why aligning financial flows matters

The 2023 SDG Stocktake highlighted that the SDG financing gap has widened to $11-15 trillion per year, or four times greater than current spending levels according to the latest estimates by the Force for Good Initiative.

For centres like Jersey, developing innovative services and products that help improve the alignment of finance with global sustainability objectives clearly presents an advantage to leverage our strengths as a platform for the cross-border deployment of capital (with Jersey currently administering around £1.4 trillion in wealth[2]).

Early signs of alignment: the Sustainable Finance Stocktake data

The FC4S 2021 report identifies Jersey as a regional "best in class" for banking and asset management, reflecting the levels of commitments made by banks in particular to increase the volume of sustainable credit activity. There is anecdotal evidence that this appears to be bearing fruit - a number of high-profiled sustainability-linked loan (SLL) transactions have been reported in the past few years. Indeed, Jersey-based RBS International supported Triton to secure their first ESG-linked facility, establishing a €1.455 billion syndicated facility.

Mobilising capital at scale for the transition

Actors within Jersey's financial services ecosystem are also seizing on opportunities to bring greater alignment of financial flows to sustainable objectives.

The International Stock Exchange (TISE), which is headquartered in the Channel Islands, is a Partner Exchange of the United Nations' Sustainable Stock Exchanges Initiative (UN SSE) and in July 2021 launched TISE Sustainable as a reputable sustainable finance segment. By the

[2] See Jersey's Contribution to Global Value Chains (2022): https://www.jerseyfinance.je/our-work/jerseys-contribution-to-global-value-chains/

end of 2023, there was a record £20.5 billion of listings across TISE's official list supporting environmental, social and sustainable initiatives, including from Latin American telecoms brand, Liberty Costa Rica, and the global leader in the production of natural soda ash, WE Soda.

Stock market segments allow issuers to measurably contribute to supporting sustainable outcomes by aligning their financing structures to global frameworks such as those set by the Climate Bonds Initiative (CBI), the International Capital Markets Association (ICMA) and the Transition Pathway Initiative (TPI). They also accelerate the uptake of such frameworks and initiatives, which in turn generates new market opportunities for firms within our sector to develop products and services that meet new client demands.

But to really capitalise on this important part of the ecosystem for Jersey as a sustainable finance centre, we need to consider how we can improve our positioning as a centre for sustainable DCM issuance. There are two key aspects to this: (i) a longer-term aim of improving our fundamentals so we can promote ourselves and compete in this space, and (ii) quick-win efforts aimed at putting in place the basic regulatory supervision that protects Jersey's reputation for DCM, aligns to global standards and allows for important data gathering.

Finally, consideration needs to be given to the role of specific incentive programmes in this area and this is clearly an opportunity that can be further explored. It has been suggested that a smaller scale accelerator scheme may be attractive to first time managers of ESG-focussed funds, for example.

7. Financing the local transition as a catalyst for innovation in sustainable finance

The following points demonstrate that there is clear potential for product innovation, in particular in the way we finance Jersey's local transition.

- There are clear business advantages to Jersey achieving a successful local transition to net zero – in terms of enhanced credibility and attractiveness as a finance centre, but also in terms of meeting the expectations of employees and stakeholders.
- Jersey cannot finance net zero through taxation alone. It will need to mobilise private sector finance, and this is an opportunity to showcase Jersey's capacities for sustainable finance.
- Government debt instruments such as green bonds can be an important source of funding for a range of projects and capital expenditure linked to the Carbon Neutral Roadmap (CNR).
- Investors are looking for sustainable finance investment opportunities. Large-scale projects such as offshore wind (whereby the Government of Jersey recently held a consultation to gauge the support of developing a wind farm in Jersey's waters) are particularly suited to attracting private capital and could generate significant corollary benefits for both the Island and the finance sector.

- There are clear opportunities for Jersey to look to other financing mechanisms emerging in neighboring countries that allow access to new sources of private capital. This includes an element of retail investment, allowing for Islanders to invest directly in the local transitions. Tapping into pooled investments, including strategic reserves, possibly through some sort of local climate fund that could finance a range of smaller projects, is another option favoured by industry participants.
- The key to tapping into private capital lies in Government playing a role in facilitating the delivery of clearly defined, investible projects.

The importance of the presence of green financing mechanisms issued by a public body as one of the criteria for progress as a sustainable finance centre is detailed in FC4S's guidance notes to the Assessment Programme:

"As issuers of bonds, Governments and Public bodies can also issue Sovereign Green, Social, and Sustainability-Linked bonds to support public spending in contributing to strategic initiatives surrounding climate, the low-carbon transition or the achievement of the SDGs and catalysing local green finance markets and attracting new investors."

The UK has also placed the issuance of green bonds and the mobilisation of private sector capital for the transition firmly within the scope of its plans for the future of the UK financial services industry.

While such approaches cannot be directly replicated in specialist centres like Jersey that mainly intermediate capital for other larger economies, there is undoubtedly a role for finance centres to play in leading by example when it comes to leveraging sustainable DCM issuance. This is a route that Jersey should seek to emulate: mobilising private capital can reinforce Jersey's credentials for sustainable finance.

8. Skills that drive innovation and growth

Supporting sustainable finance skills will play an important role in ensuring that Jersey is equipped for industry transformation and can deliver innovation that will keep it relevant and resilient – both in terms of clients and in terms of attracting and retaining talent. At the September 2023 AGM of the UN network of FC4S, at which Jersey Finance participated, significant emphasis was placed on Capacity Building, and highlighted the need for enhancing knowledge and expertise in Sustainable Finance.

Skills and knowledge initiatives

Industry participants noted the challenges around access to skills and talent to help develop their sustainable service line. These challenges are not specific to Jersey, reflecting a wider global skills shortage in this space, as confirmed by other centres within the FC4S network.

Ireland, for example, has established the Sustainable Finance Skillnet initiative thanks to an Irish Government grant. The scheme is aimed at building sustainable finance capacity and skills within the finance sector. It enables firms to obtain match-funding for a range of approved training courses[3]. The Skillnet initiative has now been integrated into the wider Government-funded Centre of Excellence for Sustainable Finance, a talent and capacity development hub launched by Ireland in October 2022[4].

Participants in the working group felt that an initiative in Jersey to broaden access to skills would be of significant benefit in driving industry innovation. Indeed, scoped correctly, such an initiative could in itself constitute a significant piece of institutional innovation for Jersey.

Jersey Finance has been proactive in this space by arranging numerous upskilling events, such as holding sustainable finance lunch and learns every two months on a range of topics and has developed a resource section on its website under sustainable finance, that provides a directory of training materials and courses.

Setting regulatory expectations on skills

It is important that we continue to have regular discussions with key stakeholders around skills and the possibility of mandating sustainable finance training.

9. Accelerating innovation: incentives and enablers

Policy makers have a key role to play globally in setting the right incentives and enablers for the alignment of finance and sustainable objectives.

Global models

One recurring theme in all of Jersey Finance's industry and gatekeeper discussions since the inception of *Jersey for Good*, is the role of some sort of centralising body or initiative that could help accelerate the pace of adoption and the rate of innovation for sustainable finance in Jersey.

There are many initiatives termed "hubs" in this space – and in this paper we will use this term to refer to a specific initiative or body, which acts as a particular enabler of sustainable finance.

Indeed, as global efforts are ramped up to align finance with sustainability objectives, such "hubs" have become increasingly prevalent – these range from:

- international bodies such as the UN Development Programme's Sustainable Finance Hub, which works across different international agencies to promote knowledge and technical exchanges.

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[3] See: https://sfskillnet.sustainablefinance.ie/

[4] See: https://www.sustainablefinance.ie/2022/10/17/international-sustainable-finance-centre-of-excellence-officially-launched-in-ireland/

- national organisations such as the Luxembourg Sustainable Finance Initiative[5], a not-for-profit association funded by the Government of Luxembourg, that designs and implements the Sustainable Finance Strategy for the Luxembourg financial centre.
- city/regional hubs, such as Paris Europlace's *Institut de la Finance Durable*[6], which aims to coordinate and accelerate the Paris financial centre's action in sustainable finance.

Designing a sustainable finance hub for Jersey

The working groups considered the role such a body would need in order to be effective in meeting those objectives, while avoiding duplication with other bodies that already exist – locally or globally – or are likely to come into existence.

Feedback from industry participants indicates a multitude of possible roles and functions for such a hub including stakeholder coordination, procuring training reskilling opportunities, providing guidance and support, deepening the ecosystem, cross-economy bridging, and curating opportunities to accelerate and incubate the set-up of ESG-focussed or impact fund and start-ups in the sustainable finance sector.

Proposals for a "staged" approach to Jersey's Sustainable Finance Hub

There are obvious challenges in terms of resourcing and funding to create a body that could deliver all of the roles above, leaving aside the feasibility and desirability of such an approach.

A further issue arises in that some of the functions above are already being performed to a greater or lesser extent by other organisations – not least, Jersey Finance.

It is also important to keep in mind that from a strategic perspective, Jersey Finance have always endeavoured to ensure that sustainable finance is not seen as merely a separate component to its overall plans for the future of the finance industry. Jersey Finance see this as integral to success across all sub-sectors of financial services in Jersey and therefore endeavoured to avoid the creation of specific labels. Nevertheless, there is clearly appetite within industry for some form of hub which over time could take on a more prominent role and it was suggested that the creation of such a hub should be done on a "staged approach" This approach would help Jersey to implement a sustainable finance hub in a managed way, adapting to shifting market needs in what remains a fast-moving environment.

[5] See: https://lsfi.lu/who-we-are/
[6] See: https://institutdelafinancedurable.com/en/about-us/