INTERNATIONAL SUSTAINABLE FINANCE CENTRE OF EXCELLENCE

Skillnet IRELAND

ISFCOE Net Zero Study

Towards a Sustainable Future in Ireland: Assessing the Gaps, Risks, and Potential in the Transition to Net Zero

Commissioned by:

INTERNATIONAL SUSTAINABLE FINANCE CENTRE OF EXCELLENCE

In partnership with:

Skillnet IRELAND

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1. Glossary

Abbreviation & Definition			
AI	Artificial Intelligence	**IFRS**	International Financial Reporting Standards
CSRD	Corporate Sustainability Reporting Directive	**IPPC**	Intergovernmental Panel on Climate Change
CDP	Carbon Disclosure Project	**ISSB**	International Sustainability Standards Board
CRA	Credit Rating Agency	**MIFID**	Markets in Financial Instruments Directive
CSDDD	Corporate Sustainability Due Diligence Directive	**NFRD**	Non-Financial Reporting Directive
EBA	European Banking Authority	**NGO**	Non-Governmental Organisation
EFRAG	European Financial Reporting Advisory	**PRI**	Principles for Responsible Investment
ESG	Environmental, Social, Governance	**SASB**	Sustainability Accounting Standards Board
ESRS	European Sustainability Reporting Standards	**SEC**	U.S. Securities and Exchange Commission
EU	European Union	**SFDR**	Sustainable Finance Disclosure Regulation
EUGBS	EU Green Bond Standards	**TCFD**	Task Force on Climate-related Financial Disclosures
FMP	Financial Market Participants	**TNFD**	Task Force on Nature-related Financial Disclosures
GHG	Greenhouse Gas	**UN SDGs**	United Nations Sustainable Development Goals
GRI	Global Reporting Initiative	**WEF**	World Economic Forum
GT	Gigatonne		

2. Key Findings

This study, commissioned by the International Sustainable Finance Centre of Excellence, presents a Net Zero Gap Analysis for the Irish Financial Services sector. The analysis identifies key challenges, risks, and opportunities central to the sector's transition to a net zero economy. The findings, distilled from primary research and organised into focused tables, offer a structured look at regulatory, reputational, economic, and technological facets of the transition. Recommendations are provided to navigate these areas, aiming to align the sector with net zero goals while fostering sustainable growth and operational resilience.

The following tables delineate the key findings in each area of focus.

Regulatory and Compliance Challenges

Challenge	Description	Recommendations
Regulatory Complexity	EU's evolving sustainability regulations like CSRD, SFDR, and EU Taxonomy present compliance challenges.	The Irish financial sector should focus on fostering collaborative dialogues for unified regulation interpretation, investing in workforce training, integrating regulations into business practices, and developing robust monitoring and reporting mechanisms to achieve compliance with the EU's sustainability regulations. This approach will not only ensure compliance but also contribute significantly to the sector's journey towards net zero.

Data and Reporting Challenges

Challenge	Description	Recommendations
Data and Reporting Constraints	Data quality and availability for sustainability reporting remain a concern.	**Invest in Data Systems:** Upgrade to advanced data collection and management systems tailored for the financial services sector. **Standardise Reporting Formats:** Adopt standardised reporting formats aligned with EU regulations and international standards. **Forge Partnerships:** Collaborate with sustainability data providers for access to high-quality, verified data. **Integrate Data:** Ensure seamless integration of sustainability data across all business functions.

	Staff Training: Focus on continuous training in data management and reporting for employees. **Data Privacy and Security:** Implement strict measures to ensure data privacy and security, a crucial aspect in the financial sector. **Regular Audits:** Conduct regular audits to assess and improve the quality of sustainability data. **Key Considerations:** Focus on maintaining data accuracy and reliability, integrating reporting into existing processes, managing data privacy, and adapting to evolving EU and international reporting standards.

Reputational Challenges

	Challenge	Description	Recommendations
	Greenwashing	Reputational risk of greenwashing is significant.	Develop transparent communication strategies, implement third-party audits, and educate stakeholders on accurate sustainability reporting.

Skill Development and Organisational Culture Challenges

	Challenge	Description	Recommendations
	Skill and Knowledge Gaps	Talent gap in areas like ESG analysis and sustainable investing strategies.	Invest in employee training, collaborate with educational institutions, hire sustainability experts.
	Resistance to Change	Legacy systems and traditional frameworks hinder sustainable transition.	Foster a culture of sustainability, establish clear sustainability goals, pilot sustainable finance projects.

Economic Challenges

	Challenge	Description	Recommendations
	Economic Concerns	Initial transition costs and concerns over short-term profitability can pose barriers to adopting	Develop long-term financial strategies, explore sustainable investment opportunities, identify financial incentives. **Tangible Transitional Planning:** • Conduct a comprehensive financial impact analysis to understand the

	sustainable practices.	transition's short and long-term fiscal effects. • Engage with sustainability-focused financial experts to explore green financing avenues, including green bonds and sustainability-linked loans, increasingly relevant in the Irish market. • Continuously monitor and adjust financial strategies to align with Ireland's changing market conditions and regulatory frameworks.

Risks

	Challenge	Description	Recommendations
	Regulatory Risks	Continuous adjustment to evolving regulatory frameworks is essential.	Form a dedicated team to ensure compliance with the evolving EU taxonomy and other regulatory frameworks. Engage regularly with regulatory bodies for insights on the taxonomy's implications and invest in software that integrates EU taxonomy guidelines to streamline compliance processes.
	Transition and Stranding Risks	Risk of assets becoming obsolete or non-performing due to environmental policy changes.	Carry out asset evaluations with a focus on EU taxonomy alignment to safeguard against environmental policy shifts. Diversify investments into activities recognised as sustainable by the EU taxonomy, employing scenario analyses that factor in taxonomy criteria for risk identification.
	Market Risks	Market perception shift influencing asset values and investor behaviour.	Adjust investment strategies to prioritise assets and sectors identified as sustainable in the EU taxonomy. Communicate sustainability commitments aligned with EU taxonomy standards and form partnerships with businesses compliant with, or adapting to, the taxonomy.
	Physical Risks	Tangible impacts of climate change pose financial risks due to property damage and business interruption.	Update risk models to include climate-related risks highlighted in the EU taxonomy. Develop products and strategies that are compliant with taxonomy guidelines for climate resilience, and adopt EU taxonomy-aligned climate adaptation strategies.
	Reputational Risks	Reputational damage for institutions perceived as lagging in the net zero transition.	Transparently convey net zero transition plans in accordance with the CSRD. Engage stakeholders on alignment with the taxonomy and participate in industry sustainability initiatives that comply with or are guided by the EU taxonomy criteria.

Opportunities and Digital Transformation

Opportunities	Description
Enhancing Credibility	Leveraging digital tools to bolster the credibility of reporting, publishing, and declarations by Irish Financial Services, ensuring alignment with evolving financial standards and consumer expectations.
Technology Adoption	Adopting technologies such as Big Data, Analytics, AI, and Blockchain to drive operational efficiency, enhance decision-making, and deliver value to stakeholders.
Incentivised Investments	Creating incentives for retail investors to engage in sustainable products such as tax-wrapped investments, thereby expanding the market for sustainable financial products.
Green Bonds	Leveraging the EU Green Bond Standard to raise capital for environmentally beneficial projects.
Sustainable Funds	Capitalising on the increasing institutional interest in sustainability-focused funds and addressing the retail demand by possibly targeting younger cohorts with sustainable investment opportunities.

3. Main Report

4.1 Introduction

As we confront an era of escalating environmental and economic challenges, the effect of climate change permeates both our natural habitats and the world's financial systems. The world is warming, and this presents many challenges that require a swift, coordinated response from actors across all sectors of the global economy, and in particular the financial services industry. This study endeavours to provide a gap analysis on the readiness, risks and opportunities encountered by the Irish financial services sector in the transition to a net zero future.

4.2 Climate Change and Financial Services

The concept of net zero embodies the global ambition to balance the amount of greenhouse gas (GHG) emissions produced with the amount removed from the atmosphere, targeting zero net emissions by 2050. This commitment is crucial to limiting global warming to 1.5°C above pre-industrial levels, a threshold set to prevent catastrophic climate impacts according to the Paris Agreement[1].

To realise this objective, a significant reduction in global GHG emissions to 55% of 2010 levels by 2030 is required, progressing towards net zero by 2050[2]. The failure to meet the net zero target carries severe consequences including large scale migration for subsequent generations, and widening inequalities. Economically, by 2050, climate change could impose a cost of $7.9 trillion on the global economy due to amplified natural disasters like storms, wildfires, drought, and flooding, all of which hinder growth and endanger infrastructure[3]. On the contrary, the cost to counteract climate change is significantly lower, approximating 1.5% of global GDP, or roughly $1.5-2 trillion annually for the next 30 years[4].

Within the global business landscape, adhering to a 1.5°C limit translates to a 30-gigatonne (GT) CO_2e reduction annually until 2030 across six key sectors. Fortunately, mitigation solutions exist for most of these sectors, with the potential to halve emissions from 2019 levels by 2030 at a cost of less than USD $100 per tonne of CO2e.

Nonetheless, after COP28 that took place in November/December 2023, it is visible that the global trajectory is off target. The UN Intergovernmental Panel on Climate Change (IPCC) AR6 Synthesis Report reveals that human-induced climate change is already modifying weather and climate extremes across every region globally, causing extensive loss and damage to both nature and humanity[5]. GHG emissions are projected to augment global warming in the near term, likely reaching the 1.5°C threshold between 2030 and 2035. Currently, global warming is at approximately 1.1°C, and existing climate policies are forecasted to elevate global warming by 3.2°C by 2100[6]. The IPCC harbours "very high confidence" that the risks and adverse impacts from climate change will intensify with increasing global warming[7]. To stay within the 1.5°C limit, emissions require a reduction of at least 43% by 2030 compared to 2019 levels, and at least 60% by 2035[8]. This decade is deemed critical to actualise these reductions.

In the broader Environmental, Social, and Governance (ESG) framework, the financial sector plays a pivotal role in this global endeavour. The transition to net zero is not only a climate necessity but an economic imperative, ensuring long-term sustainability and resilience. Financial markets are key in mobilising the required capital to fuel this transition, necessitating a deep understanding of the net zero landscape, the inherent risks, and the burgeoning opportunities.

4.2 Report Aims, Scope and Objectives

This report aims to provide a view of the challenges and opportunities associated with transitioning to net zero within the Irish financial services sector. Its scope encompasses a wide array of topics, ranging from the global and EU frameworks guiding this transition to the specific challenges and opportunities faced by Irish financial institutions.

Main Objectives

- **Assessment of Market Understanding**: To gauge the awareness levels and perceptions of net zero commitments within the Irish financial sector and to provide a precise definition of net zero in this context[9].
- **Barriers, Concerns, and Risks**: To identify barriers, concerning practices, and financial risks hindering the net zero transition within the EU financial services sector.
- **Opportunities and Digital Transformation**: To explore growth areas, innovations, and digital transformation opportunities within the EU financial sector related to net zero.

4.3 Methodology

A foundational literature review was undertaken to understand the nuances of the net zero transition in the financial sector. This entailed an examination of academic articles, whitepapers, and publications from respected bodies such as the European Union and the Central Bank of Ireland. Complementing this was a series of unstructured interviews with stakeholders spanning financial analysts, sustainability experts, and representatives from key financial entities in Ireland, aiming to capture real-time perspectives and intricate details of the sector's ongoing evolution.

To strengthen the credibility and robustness of our findings, we subjected the research to a rigorous review process, inviting critiques and feedback from notable figures in sustainable finance. Despite our thorough approach, the study is not without its limitations: the recency and scope of available data posed challenges, and the subjectivity inherent in qualitative interviews necessitates a cautious interpretation.

In sum, the research methodology merged qualitative reviews and secondary insights, furnishing a well-rounded perspective on the net zero shift in the financial arena in Ireland.

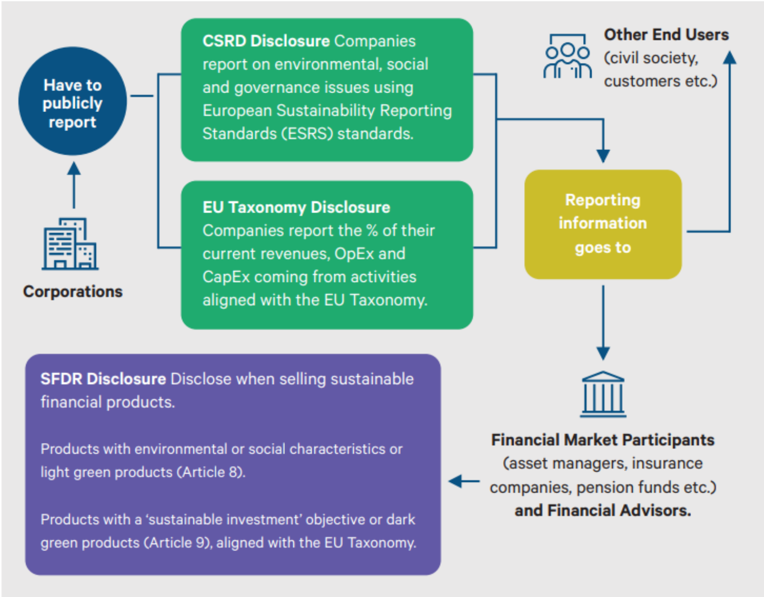
4.4 Market Understanding of Net Zero

The EU's quest for a green economy, as delineated in the 2018 Sustainable Finance Action Plan, sets a strategic roadmap to channel capital towards sustainable ventures. This plan orbits around three pivotal objectives: redirecting capital flows towards a sustainable economy, ingraining sustainability within risk management protocols, and fostering transparency alongside a long-term vision in financial markets[10].

For Irish financial institutions, this transition presents both a challenge and an opportunity. The legally binding target for Ireland is a 51% reduction in GHG emissions by 2030 compared to 2018 levels. The Irish Climate Action Plan outlines a total public investment of €165 billion between 2021 and 2030, aiming for a 5% public investment of GNI[11]. The transition necessitates a substantial redirection of both public and private capital towards investments that align with Ireland's emission objectives, as well as the broader EU's net zero ambitions.

Financial institutions in Ireland will play a pivotal role in channelling investments towards sustainable projects and away from carbon-intensive ones. The EU's focus on enabling technology solutions, finance, and incentives for sustainable market transformation creates a framework within which Irish financial institutions can align their strategies. This alignment not only supports the national and EU-wide climate objectives but also positions these institutions favourably in a climate-conscious global financial landscape.

The transition to net zero also underscores the importance of equity, social justice, and inclusion, which Irish financial institutions should integrate into their transition strategies to contribute towards a just and climate-resilient development, both locally and within the larger EU context.



Source: EU Sustainable Finance Action Plan

Key regulatory frameworks like the Sustainable Finance Disclosure Regulation (SFDR), EU Taxonomy, and the Corporate Sustainability Reporting Directive (CSRD) stand at the centre of this endeavour. They collectively facilitate a data exchange ecosystem between corporations and investors, thereby promoting transparency and propelling the green economy transition[12]. The EU Taxonomy, a scientifically underpinned classification system, streamlines the identification of environmentally sustainable economic activities. It also augments transparency in reporting such activities, aligning them with established international guidelines and principles[13].

Sustainable Finance Disclosure Regulation (SFDR)

The **SFDR**, launched in March 2021, mandates in-scope financial market participants to disclose information related to sustainable investments and the risks associated with sustainability. The primary objective of SFDR is to enhance transparency in sustainability and ensure that companies can finance sustainable growth. The regulation includes disclosure requirements that apply to both businesses and financial products to standardise sustainability reporting and prevent "greenwashing".

SFDR categorises investment funds into three categories of sustainability based on the product's sustainability objectives[1]. According to the SFDR's classification system, a fund will either be classified as an Article 6, 8 or 9 fund – depending on its characteristics.

Launched in March 2021, the SFDR mandates disclosure of sustainability-related information by financial market participants. It categorises investment funds based on sustainability objectives, driving standardisation in sustainability reporting and curtailing greenwashing[14]. The CSRD, superseding the EU Non-Financial Reporting Directive (NFRD) in January 2023, broadens the scope and depth of corporate sustainability reporting. By 2024, a substantial increase in the number of companies mandated to disclose sustainability information is anticipated, thereby enhancing stakeholders' insight into the climate and sustainability risks associated with their investments[15].

The intertwining of financial intermediation and sustainability preferences of clients, as seen in the amended Markets in Financial Instruments Directive II (MiFID II) since August 2022, further entrenches sustainability within financial markets. It obliges financial intermediaries to heed clients' sustainability preferences, steering the product offerings towards more sustainable options as outlined by the SFDR or the EU Taxonomy[16].

The surge in sustainable and transition finance underscores the escalating importance of climate-aligned financing. This includes not only pure green activities but also transition activities undertaken by GHG-intensive sectors. The regulatory framework, through the EU Taxonomy, acknowledges investments aiding the transition towards climate and environmental objectives[17]

Transition finance, encapsulated in both general-purpose financing and green financing, has witnessed a burgeoning growth, with global sustainable bond issuance hitting $570bn in H1 2023[18]. The approval of the EU Green Bond Standard (EUGBS) by the European Parliament in October 2023 further buttresses this trajectory, setting stringent sustainability prerequisites for issuers[19].

A number of external standards like Science Based Targets (SBTi) and CDP are increasingly being adopted by investors to assess corporate alignment with the net zero transition. This reflects a broader trend where financial stakeholders are placing a premium on corporate decarbonization plans, ESG targets, and governance frameworks[20].

The evolvement of financial risk management tools to incorporate climate transition scenarios exemplifies the integration of climate risk assessments within financial services. This integration is likely to engender pricing differentials based on alignment with climate transition objectives, impacting insurance premiums, borrowing costs, and access to efficient equity capital.

As the final segment of the EU Sustainable Finance Action Plan, the CSRD, dovetails into place, the enhanced non-financial data reporting and the publication of Climate Transition Plans will empower financial stakeholders to better gauge the climate-induced risks and opportunities in their portfolios[21].

Biodiversity and Nature

The EU's commitment to sustainable finance extends beyond climate considerations to encompass biodiversity and nature preservation. This holistic approach is evident in the EU's regulatory frameworks and initiatives, encouraging financial institutions across Europe to incorporate biodiversity risks and opportunities into their investment and risk assessment processes. Such measures include evaluating the impact of investments on natural ecosystems and integrating nature-based solutions into investment portfolios. Acknowledging the critical role of biodiversity in environmental sustainability and long-term investment resilience, the EU's strategy emphasises the need to consider ecological degradation as a significant financial risk. Therefore, a comprehensive approach to sustainable finance that embraces biodiversity and nature-based considerations is imperative for financial institutions across the EU. This approach aligns with the broader objectives of the EU Green Deal and ensures a transition towards a more sustainable and resilient economy.

4.5 Irish Financial Institution Awareness and Perception of Net Zero

The global and European Union (EU) frameworks form the cornerstone upon which the narrative surrounding the net zero transition within the Irish financial sector is built. Against this backdrop, this section notes the key catalysts that are amplifying awareness and moulding perceptions within Ireland regarding this transition.

Regulatory Catalysts: The Central Bank of Ireland continues to be a critical player in enhancing the awareness of climate risks and the necessity for the net zero transition. Climate Change has been a strategic priority for the institution, with a dedicated Climate Change Unit and Climate Forum established since 2021. Through various circulars, guidelines, and stakeholder engagements, it accentuates the financial stability risks posed by climate change, urging financial institutions in Ireland to not treat the transition to net zero as a distant goal but as an immediate consideration due to international and EU regulatory measures.

Industry-led Initiatives: Industry associations, along with key players in the Irish financial ecosystem, have been pivotal in propelling awareness. Initiatives like the 2023 Action Plan under the Ireland for Finance strategy highlight the collaborative measures to be taken by public and private stakeholders to bolster the financial services sector's development in light of sustainability[22].

Peer and Competitor Influence: The commitments and strategies publicised by leading financial entities such as Bank of Ireland and AIB Group towards net zero set a precedent, thereby elevating awareness across the sector. Recent progress by Ireland’s largest firms towards meeting net zero targets illustrates the growing sector-wide commitment to sustainability[23].

Stakeholder Expectations: The launch of the ESG Reporting Guidance by Euronext Dublin and the growing demands from investors for ESG metrics and guidelines signify the rising scrutiny from stakeholders. A significant portion of asset managers now integrate ESG risks into their investment processes, reflecting a broader shift towards transparency on net zero commitments.

Educational and Training Programmes: With universities across the country such as Trinity College Dublin and University College Dublin incorporating sustainability and net zero transition themes in their curricula, the educational landscape in Ireland is evolving to address the financial dynamics of sustainable energy and the implications of net zero transition.

Media and Public Discourse: The increased climate-related reporting by media outlets like The Irish Times and RTÉ plays an essential role in shaping the sector's awareness concerning the financial implications of climate change and opportunities within the net zero transition.

Perception and Attitudes towards Net Zero Goals and Commitments: The perception within the Irish financial sector is progressively aligning with net zero objectives. Nearly 80% of financial firms plan on achieving net zero carbon emissions, signifying a robust commitment to sustainability[24]. However, challenges surrounding the financial feasibility of transitioning to net zero and regulatory impact uncertainties remain. Engaging proactively with regulators, investors, and other stakeholders is imperative for Irish financial institutions to navigate these challenges and align with net zero commitments strategically.

In conclusion, the escalating awareness and evolving perception of net zero within the Irish financial sector are orchestrated by a blend of regulatory actions, industry initiatives, peer influences, stakeholder pressures, educational endeavours, and media discourse.

4. Action Plan of the Challenges Towards Net Zero

Barriers and Concerns

Based on the interview primary data, challenges and barriers are very evident across the Irish financial services sector on how to ensure net zero transition expectations are met.

Challenges and Barriers	Description	Recommendations	Pillar[1]
Regulatory Complexity	The EU's regulatory landscape for sustainable finance is intricate, with multiple directives and regulations like the CSRD, SFDR, and EU Taxonomy. Ensuring consistent interpretation and application across all member states, including Ireland, can pose a significant challenge. With SFDR already requiring funds to report non-financial data on investee companies but investee companies not yet required to report under SFDR, this leads to data issues. Timing issues are key here. SFDR already requires investment funds to report non-financial data, but their investee companies are not required to report until next year. Data gaps. Same for taxonomy although European supervisory agencies are asking funds to be cautious with their taxonomy reporting.	• Advocate for consistent interpretation and application of EU sustainability regulations across all member states. • Collaborate with industry associations to provide guidance on compliance. • Establish a dedicated compliance team to monitor and ensure adherence to evolving regulations.	**Pillar 1: Developing Talent** **Pillar 2: Training and Industry Readiness**

Data and Reporting Constraints	While regulations like the CSRD are pushing for more transparency, the financial sector struggles with sourcing consistent, high-quality, and verifiable data for sustainability reporting. This impediment can lead to varied quality in disclosures, undermining investor confidence.	• Invest in data collection and verification systems to improve data quality and reliability. • Collaborate with industry peers to create standardised data reporting formats and benchmarks. • Explore partnerships with data providers specialising in sustainability metrics.	**Pillar 2: Industry Readiness** **Pillar 3: Leveraging Digital**
Greenwashing	One of the most pressing reputational risks is greenwashing, where financial products are marketed as more environmentally friendly than they truly are. This practice can undermine sustainability efforts and erode investor trust.	• Develop clear and transparent communication strategies regarding sustainability efforts. • Implement third-party audits and certifications to verify sustainability claims. • Educate employees and stakeholders about the importance of accurate sustainability reporting.	**Pillar 1: Developing Talent** **Pillar 2: Training and Industry Readiness**
Skill and Knowledge Gaps	The rapid evolution of sustainable finance requires a new set of skills and knowledge. Many institutions face a talent gap, lacking expertise in areas like ESG analysis and sustainable investing strategies.	• Invest in employee training and development programs focused on ESG analysis and sustainable investing strategies. • Collaborate with educational institutions to create specialised courses and programmes related to sustainable finance. • Hire experienced professionals with expertise in sustainability and ESG.	**Pillar 1: Developing Talent** **Pillar 2: Training and Industry Readiness**
Resistance to Change	Inherent resistance to change, especially in well-established financial institutions, can act as a barrier. Legacy systems, traditional investment frameworks, and entrenched corporate cultures can hinder the transition to sustainable practices.	• Create a culture of sustainability within the organisation through leadership commitment and employee engagement. • Establish clear goals and metrics for sustainability initiatives to track progress and demonstrate benefits.	**Pillar 4: Enabling Environment**

		• Pilot sustainable finance projects to showcase successful outcomes and build support within the institution.	
Economic Concerns	While the long-term economic advantages of sustainable finance are clear, the initial transition can come with significant costs. In the short run, concerns about profitability and ROI can serve as barriers, especially for smaller institutions.	• Develop a long-term financial strategy that accounts for short-term transition costs and focuses on the long-term benefits of sustainable finance. • Explore sustainable investment opportunities that offer competitive returns and align with net zero goals. • Collaborate with industry peers and governmental agencies to identify potential financial incentives for sustainable initiatives.	**Pillar 5: Promotion & Communication**

Risk and Credibility

Moving towards net zero is a critical step for financial institutions aiming to align with environmental goals and maintain stakeholder trust. However, this transition presents a set of risks, both from external challenges and potential internal credibility loss due to inaction or lack of transparency. The table below outlines the key risks, their descriptions, and offers recommendations for financial institutions working towards a net zero economy.

Risk Category	Description	Recommendations	Pillar
Regulatory Risks	The European Union (EU) has been proactive in implementing regulatory frameworks to combat climate change and promote sustainability. Directives like the Corporate Sustainability Reporting Directive (CSRD), Sustainable Finance Disclosure Regulation (SFDR), and the EU Taxonomy are part of this regulatory overhaul. These directives	• **Establish a Specialised EU Taxonomy Compliance Unit**: Financial institutions in Ireland should create a unit specifically dedicated to EU Taxonomy compliance. This team would be responsible for keeping up-to-date with all EU Taxonomy-related changes, ensuring that the institution's financial products and services are in line with these criteria. • **Regular Training on EU Taxonomy Updates:** Implement regular training sessions for staff at all levels on the specifics of the	**Pillar 1: Developing Talent** **Pillar 2: Training and Industry Readiness**

	necessitate financial institutions to continually adjust their operational and reporting mechanisms to stay compliant.	EU Taxonomy. This training should include understanding the taxonomy's criteria, its application to various financial products, and the implications of non-compliance. • **Enhanced Reporting Mechanisms:** Upgrade reporting systems to align with the EU Taxonomy's reporting requirements. This could involve integrating new software solutions that are designed to track and report in accordance with the taxonomy's classifications. • **Proactive Engagement with Regulators:** Establish ongoing communication channels with regulatory bodies such as the Central Bank of Ireland, to stay ahead of potential regulatory changes related to the EU Taxonomy. Proactive engagement can also provide opportunities to influence the development of practical implementation guidelines. • **Taxonomy Alignment Audits**: Conduct regular internal audits to ensure that all financial activities and investments are in compliance with the EU Taxonomy. This would involve reviewing existing portfolios and adjusting investment strategies as necessary. • **Stakeholder Communication Strategy**: Develop a clear communication strategy to inform stakeholders, including investors and clients, about how the institution is aligning its operations and investments with the EU Taxonomy. This

		transparency is crucial for maintaining trust and managing expectations.	
Transition Risks	Transition risk for Irish financial services involves adapting to sustainability in line with the EU Taxonomy. This includes reassessing investment portfolios, aligning strategies with sustainable practices, and understanding the EU Taxonomy's impact. It covers market shifts affecting asset values and investor behaviour as the sector progresses towards sustainability. Efficiently managing this transition is vital for compliance and competitiveness in the evolving sustainable financial landscape.	• **EU Taxonomy-Aligned Portfolio Review**: Regularly review and adjust investment portfolios to ensure alignment with the EU Taxonomy's sustainability criteria. This involves evaluating current and potential investments for their contribution to the sustainable transition and their compliance with the taxonomy. • **Investment Strategy Reorientation:** Shift investment strategies to focus more on sectors and activities that are recognised as sustainable under the EU Taxonomy. This transition strategy should aim to gradually phase out investments in non-compliant sectors. • **Educate Teams on Taxonomy Compliance**: Provide in-depth training for investment managers and decision-makers on the EU Taxonomy, focusing on understanding its criteria and its implications for investment choices. • **Scenario Planning Incorporating EU Taxonomy**: Implement scenario planning exercises that specifically consider the implications of EU Taxonomy criteria on different investment sectors. This will help in anticipating and preparing for changes in the investment landscape as the EU continues to move towards a sustainable economy. • **Stakeholder Communication and Reporting**: Develop and maintain transparent communication channels with stakeholders, reporting on how the institution is aligning its strategies with the EU Taxonomy and the broader	**Pillar 2: Training and Industry Readiness**

		transition to sustainability. Regular reporting should include progress and challenges faced in this transition. • **Collaboration with Industry Partners**: Engage with other financial institutions, regulatory bodies, and sustainability experts to share best practices and challenges in aligning with the EU Taxonomy. Collaborative approaches can lead to more effective transition strategies and risk management.	
Market Risks	The market's perception of sustainability and climate change is increasingly influencing asset values and investor behaviour. Assets perceived as unsustainable may suffer devaluation, while sustainable assets might enjoy a premium. The shift in market perception can also affect customer and investor loyalty.	• To support mitigating market risks, financial institutions should realign their investment strategies with sustainable assets and practices. • Communicating the institution's commitment to sustainability clearly to stakeholders can also help manage market perceptions. • Moreover, financial institutions can explore partnerships with sustainable businesses to enhance their market positioning.	**Pillar 2: Training and Industry Readiness**
Physical Risks	The tangible impacts of climate change, including extreme weather events like floods, wildfires, and storms, pose significant risks. These physical risks can result in substantial financial losses due to property damage, business interruption, and liabilities. Especially insurers and property-focused investors may face increased claims and devaluations.	• Financial institutions should enhance their risk models to better account for the increasing physical risks associated with climate change. • Developing products that adequately cover climate-related risks and investing in resilient infrastructure are also crucial steps. • Engaging with authorities on climate adaptation strategies and promoting climate risk awareness can further help in mitigating physical risks.	**Pillar 2: Training and Industry Readiness**
Reputational Risks	With the growing societal emphasis on sustainability, financial	• Institutions should transparently communicate their net zero transition	**Pillar 5: Promotion and Communication**

	institutions perceived as lagging in the net zero transition may suffer reputational damages. The reputation of financial institutions is increasingly tied to their perceived sustainability efforts and alignment with broader societal values concerning climate change.	plans and progress, backed by verifiable metrics, to build and maintain trust among stakeholders. • Establishing a clear sustainability agenda, engaging with stakeholders, and participating in industry sustainability initiatives can also help in enhancing the institution's reputational standing.	

Credibility of Net Zero Transition Plans

Credibility	Description	Recommendations	
The Centrality of ESG Metrics	ESG metrics are fundamental for evaluating the sustainability of financial institutions' investment decisions. They provide quantifiable parameters to measure the environmental impact, societal implications, and governance standards of investments. The EU's adoption of standardised ESG metrics, influenced by regulations like SFDR and the EU Taxonomy, ensures consistency and comparability across the financial sector.	• Financial institutions should adopt standardised ESG metrics, ensuring that they reflect the depth and accuracy of their sustainability efforts. • Engaging with regulatory bodies and industry forums can also help in aligning with evolving ESG measurement standards.	**Pillar 4: Enabling Environment**
Transparency - The Heart of Credibility	Transparency is central to establishing credibility. Stakeholders, including investors, regulators, and the public, demand clear visibility into both the goals and the strategies employed by financial institutions in their net zero transition. The CSRD, which emphasises enhanced sustainability reporting,	• Institutions should adhere to the CSRD's enhanced sustainability reporting guidelines, providing clear and comprehensive disclosure of their net zero transition plans, goals, and the strategies envisioned to achieve these goals. • Engaging with stakeholders and maintaining an open dialogue can further bolster transparency.	**Pillar 2: Industry Readiness** **Pillar 4: Enabling Environment**

	fosters transparency and allows stakeholders to track the progress made by institutions towards their net zero commitments.		
Accountability - Ensuring True Alignment	Accountability is about ensuring that financial institutions uphold their net zero commitments. It involves mechanisms like third-party audits, stakeholder reviews, and regulatory scrutiny that keep institutions in check, ensuring that their transition plans and investment decisions are in alignment with their net zero commitments.	• Implementing rigorous accountability mechanisms such as third-party audits, stakeholder reviews, and ensuring adherence to regulatory scrutiny will foster true alignment with net zero commitments. • Establishing a feedback loop with stakeholders can also enhance accountability. • Commitment to recognised benchmarks e.g. SBTi • Aligning executive pay to net zero targets	**Pillar 2: Industry Readiness**
"Greenwash" - Examination of Credibility	The EU financial sector has seen a range of transition plans, with varying degrees of alignment with net zero commitments. "Greenwashing", or the exaggeration of sustainability efforts, undermines the credibility of the sector. A rigorous examination of transition plans against established ESG metrics, transparency standards, and accountability measures is essential to weed out greenwashing and uphold sector credibility.	• Financial institutions should support and participate in rigorous examinations of their transition plans and investment decisions, benchmarked against ESG metrics, transparency standards, and accountability measures. • Engaging with independent auditors and adhering to industry best practices can help mitigate greenwashing and enhance credibility.	**Pillar 1: Developing Talent** **Pillar 2: Industry Readiness**

The transition to a net zero financial landscape hinges significantly on the credibility of the transition plans and investment decisions made by financial institutions. The robust regulatory frameworks within the European Union, emphasising sustainability, play a pivotal role in ensuring the legitimacy of such plans. The credibility of these plans and decisions can be placed under three categories: ESG metrics, transparency, and accountability. The table below explores these credibility issues, shedding light on their significance, descriptions, and recommendations for financial institutions aiming for a credible transition to a net zero economy.

Opportunities and Digital Transformation

The table below delineates various opportunities identified by our interviewees across categories such as Digital Transformation & Tools, Sustainable Finance, Innovations, and Sustainability Initiatives. Each opportunity is elaborated upon, providing insight into how they contribute to enhancing the sector's alignment with net zero goals, bolstering credibility, and promoting sustainable investment and operational practices.

	Opportunities	Description
Digital Transformation & Tools	Enhancing Credibility	• Leveraging digital tools to bolster the credibility of reporting. • Publishing, and declarations by Irish Financial Services. • Ensuring alignment with evolving financial standards. • Consumer expectations.
	Technology Adoption	• Adopting technologies such as Big Data, Analytics, AI, and Blockchain to drive operational efficiency. • Enhance decision-making and deliver value to stakeholders. • These technologies could also help in navigating and leading in the contemporary financial landscape.
	Big Data and Analytics	• Employing advanced analytics tools to navigate the data heavy ESG landscape. • Providing predictive analysis on sustainability trends or risks. • Aiding in better decision-making towards net zero goals.
	Blockchain	• Utilising blockchain to ensure transparency and traceability in green finance • Verifying the genuine green nature of bonds or tracking the journey of carbon credits • Enhancing the trust and efficiency in sustainable financial transactions.
	AI in Finance	• Leveraging AI for risk assessments • Predicting long-term environmental risks • Modelling climate change impacts on assets • Automating complex ESG reporting processes, thus enhancing the efficiency and effectiveness of sustainable finance operations towards achieving net zero.
Sustainable Finance	Incentivised Investments	• Creating incentives for retail investors to engage in sustainable products such as tax-wrapped investments, thereby expanding the market for sustainable financial products.
	Green Bonds	• Leveraging the EU Green Bond Standard to raise capital for environmentally beneficial projects, which in turn, could enhance the reputation and funding

		mechanisms of financial entities while aligning with green finance goals.
	Sustainable Funds	• Capitalising on the increasing institutional interest in sustainability-focused funds and addressing the retail demand by possibly targeting younger cohorts with sustainable investment opportunities.
	Sustainable Infrastructure and Real Estate	• Investing in energy-efficient buildings, green urban spaces, and sustainable transportation to align with broader net zero goals. • Providing niche renovation financing to transition assets with low efficiency ratings, catering to climate-aligned lending criteria.
Innovations	Green FinTech	• Exploring financial technology innovations catering to the green market, such as platforms offering transparent carbon credit markets, ESG performance analytics tools, or peer-to-peer renewable energy trading, to stay ahead in the sustainability curve.
	Impact Investing	• Engaging in Impact Investing to reap dual rewards of tangible environmental/social impacts alongside financial returns. • Aligning with the robust social welfare and environmental framework of the EU.
Sustainability Initiatives	European Green Capital Award	• Participating in or supporting initiatives like the European Green Capital Award to experiment with sustainable public transport, green housing, or waste management innovations, showcasing a commitment to sustainability.
	Transition Bonds	• Utilising Transition Bonds to provide capital to sectors intent on greening their operations, thus enabling a pragmatic approach to sustainability, especially in heavy industries.

5. Conclusion

The net zero transition is an imperative journey that the Irish Financial Services sector is poised to undertake, spurred by global, European, and domestic sustainability directives. The core challenges, risks, and opportunities unveiled through this study provide a nuanced outline of the sector's readiness and the road ahead.

Regulatory complexity, data and reporting constraints, skill and knowledge gaps, and economic concerns emerged as notable challenges. Addressing these necessitates fostering a culture of sustainability, enhancing transparency, investing in digital transformation, and ensuring regulatory alignment.

The risks, encompassing regulatory, transition, market, physical, and reputational domains, underscore the necessity for enhanced risk management practices. A proactive approach towards risk mitigation, coupled with transparent communication and stakeholder engagement, can bolster the sector's resilience.

Opportunities abound in the realms of digital transformation, sustainable finance, and innovative sustainable practices. Harnessing these opportunities requires a concerted effort to adopt new technologies, develop sustainable financial products, and engage in collaborative ventures.

In the stride towards a net zero economy, the Irish Financial Services sector stands at a juncture laden with both challenges and opportunities. The recommendations provided aim to serve as a roadmap for navigating the complexities of this transition. Through strategic alignment with the broader EU vision, enhanced stakeholder engagement, and continuous innovation, the sector can significantly progress towards its net zero ambitions, thereby contributing to a sustainable and resilient financial landscape in Ireland.

The insights garnered through this study underscore the imperative for an agile, collaborative, and forward-thinking approach to ensure a successful transition, ultimately positioning the Irish Financial Services sector as a stalwart player in the global sustainability arena.

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