McKinsey & Company

Global Banking & Securities

Sustainability in global transaction banking: A market imperative

Sustainable financial products can propel revenue growth for banks and contribute substantially to businesses' progress in meeting global climate goals. But success requires a strategic approach.

This article is a collaborative effort by Alessio Botta, Nunzio Digiacomo, Joseba Eceiza, Helmut Heidegger, Reema Jain, Francesco Mach di Palmstein, and Markus Röhrig, representing views from McKinsey's Banking Practice.

© Getty Images

October 2022

Sustainability[1] has become a topic of crucial importance for many corporations, including financial institutions. One reflection of this is the strong growth in sustainable debt instruments, which according to BloombergNEF surpassed $1.6 trillion in 2021.[2] In contrast, sustainable global transaction banking (GTB) is still in the early stages, but its potential for growth is significant. We estimate that revenue from sustainable trade finance and cash management products will grow by 15 to 20 percent annually to total combined revenues of $28 billion to $35 billion in 2025,[3] with market penetration reaching approximately 25 percent in trade finance products and 5 percent in cash management products.

Research also indicates that demand for sustainable GTB products far exceeds supply (at present, only 10 percent of demand is met[4]), and we expect that in the coming years, sustainability will become a vital element of a competitive GTB offering. Surprisingly, few banks today embed sustainability in their GTB products, handing market leaders an opening to capture a disproportionate share of the market. Banks should act now to build a sustainable GTB value proposition that enables them to defend existing relationships and expand their market share while staying ahead of customer demands and the expectations of employees, investors, and the public.

Sustainability in GTB: Opportunity and imperative

Banks' current sustainability offerings are typically incorporated in traditional lending products, and growth in these products has been remarkably strong. According to Bloomberg estimates, the combined volumes of sustainability-rated debt instruments have grown approximately 80 percent per year, increasing from approximately $155 billion in 2017 to more than $1.6 trillion in 2021.[5]

By contrast, most banks across the world have taken only preliminary steps toward incorporating sustainability features within GTB products. This slow uptake derives in part from complexity—which arises from paper-intensive processes involving multiple parties—and from the lack of reliable data on companies' sustainability-related activities and of industry standards for evaluating these activities.

Despite these challenges, embedding sustainability-tracking capabilities within core transaction banking services can be highly effective in improving companies' performance on ESG metrics, as trade and payment transactions are systematic and recur frequently. What is more, trade finance rolls over frequently (every 30 to 90 days), which means that products such as supply chain finance (SCF), letters of credit, and guarantees have the potential to contribute disproportionately to new volumes in sustainable finance.

The trade finance community—including financial institutions, export credit agencies, trade organizations, technology and service providers, and corporations—is focusing on various sustainability initiatives.[6] Diverse banks offer sustainability-linked solutions, including deposit accounts backed by investments in sustainability-rated assets and letters of credit issued for transactions in which the underlying asset (for example, batteries for electric vehicles) contributes to efforts to mitigate climate change. In addition, the number of requests for proposal (RFPs) for trade finance projects involving sustainability criteria is increasing, especially in the United States and Europe.[7]

The main reason for strong corporate demand for sustainable GTB products is that banks have unique access to transaction data (through various products like cash pooling and supply chain finance), which can be used to help companies manage the carbon impact of their operations and achieve their target contributions to industry

[1] Sustainability is a broad term covering the impacts of environmental, social, and governance (ESG) guidelines. Specifically, ESG guidelines encompass the degree of responsibility that companies assume, irrespective of what they are legally required to do, for sustainable development in these three areas. See Jordan Bar Am, Nina Engels, Sebastian Gatzer, Jacqueline Lang, and Frank Sänger, "How to prepare for a sustainable future along the value chain," McKinsey, January 2022, McKinsey.com.
[2] "Sustainable debt issuance breezed past $1.6 trillion in 2021," BloombergNEF, January 12, 2022 , bnef.com.
[3] Estimates subject to change according to future macroeconomic conditions.
[4] *World supply chain finance report 2020*, BCR, bcrpub.com.
[5] Gregory Elders et al., "Blossoming green-bond market growing toward $250 billion year," Bloomberg Intelligence, March 8, 2018, bloomberg.com; "Sustainable debt issuance," January 12, 2022.
[6] *Sustainability in export finance*, ICC Global Export Finance Committee Sustainability Working Group, September 2021, iccwbo.org.
[7] Lucy Fitzgeorge-Parker, "Transitioning trade finance is ESG's biggest challenge," Euromoney, January 25, 2021, euromoney.com.

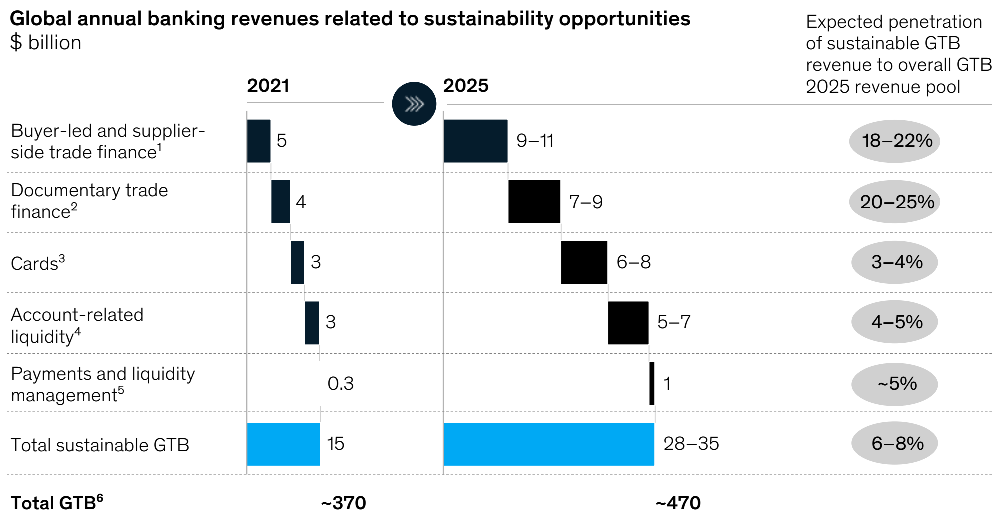
sustainability goals, such as the UN Sustainable Development Goals (SDGs) for 2030. Banks can be particularly effective in assessing scope 3 greenhouse gas (GHG) emissions, which typically account for most emissions linked to a company's supply chain and are the most difficult to measure (see sidebar, "How to define sustainability for GTB products"). Stronger monitoring enables a company to reduce emissions along its supply chain, which enables it to meet the expectations of shareholders and stakeholders.

Not only do companies that adopt sustainability-rated GTB offerings gain a stronger reputation in the eyes of investors and the public through a genuine and demonstrable commitment to better outcomes for the environment and society, they also typically gain access to favorable conditions from their own buyers, including dynamic discounting and wider access to credit from banks. At the next level, participation in an ecosystem supporting the shift toward sustainability enhances a corporate client's access to suppliers with better sustainability performance on measurable outcomes. Further, stronger involvement of mid-corporates (which typically face significant challenges in complying with sustainability standards) helps to elevate the standards of the supplier base. Finally, improving performance on sustainability goals is part of a virtuous cycle: research shows that the financial performance of companies corresponds to how well they contend with ESG and other nonfinancial matters.[8]

Given the strong and growing demand among corporates for sustainable financial services, McKinsey estimates that in 2025, sustainable GTB global revenue pools will reach $16 billion to $20 billion in trade finance and $12 billion to $15 billion in cash management, both growing at an annual rate of approximately 15 to 20 percent. This opportunity entails primarily a shift from traditional GTB products to GTB products and services incorporating measurable sustainability objectives. Secondarily, it involves incremental revenues flowing from the anticipated acceleration of overall GTB revenue growth. Our projection of $28 billion to $35 billion in sustainable GTB revenue in 2025 represents 8 percent of global transaction banking revenue from core products, including trade finance (buyer-led, supplier-side, and documentary) and cash management, including commercial cards, acquiring, POS, deposits, liquidity management, payments, and collections (Exhibit 1).

Exhibit 1

The revenue opportunity in sustainable global transaction banking (GTB) is estimated to grow to $28 billion–$35 billion by 2025.



[1]These figures are not included in GPR report; includes reverse factoring, invoice discounting, factoring, etc.
[2]These figures are carved out from cross-border in GPR report.
[3]Includes commercial credit card and other products.
[4]Fee component of current accounts, term deposits, and overdrafts.
[5]Including cross-border and domestic transactions; also includes collections.
[6]Includes revenues relevant for ESG products in GTB; excludes net interest income component for deposits.
Source: Bank websites; expert interviews; McKinsey Payments Map

[8] Sara Bernow, Jonathan Godsall, Bryce Klempner, and Charlotte Merten, "More than values: The value-based sustainability reporting that investors want," McKinsey, August 2019 , McKinsey.com.

As evidence mounts that companies' adoption of policies and practices to address sustainability is linked to stronger financial performance,[9] GTB service providers stand in a unique position to support clients working toward combined sustainability and economic goals. And just as consideration of impacts on sustainability has become standard practice for a growing set of asset managers and institutional investors, we anticipate that sustainable GTB will become a market imperative and that the integration of sustainability-related features within core transaction banking services will become a vital element of a competitive offering.

A best-in-class sustainable GTB ecosystem

Based on our analysis of banks' current offerings in sustainable transaction banking, we believe that banks aiming to lead in this space should broaden their value proposition in three waves. First, they should enhance the basic products of trade finance and cash management with basic sustainability features. The next wave would involve building a more elaborate supply chain ecosystem with a robust sustainability rating methodology and advanced analytics to assess sustainability across the supply chain. Finally, depending on client needs and expectations in the markets served, banks could build advisory services to help corporate buyers and their suppliers improve their performance on sustainability goals.

[9] Witold Henisz, Tim Koller, and Robin Nuttall, "Five ways that ESG creates value," McKinsey, November 14, 2019, McKinsey.com.

How to define sustainability for GTB products

Sustainable GTB products are cash management and trade finance products that support companies in their sustainability activities, which aim ultimately to contribute to the UN Sustainable Development Goals (SDGs).

In the broadest sense, sustainability principles and practices enable organizations to assess their impacts on environmental, social, and governance matters while also considering their financial returns. More specifically, the 17 UN SDGs comprise 169 targets and 231 indicators. Realizing the SDGs by 2030 will require an estimated $5 trillion to $7 trillion a year of new investment.[1] GTB, as the business responsible for moving these flows, has a critical role to play in achieving these goals.

Organizations' internal sustainability frameworks and the UN SDGs complement each other by supporting businesses, governments, and civil society in their efforts to operate in ways that are genuinely sustainable in the impacts they have on the environment, society, and people. There are also important differences between these two components of sustainability governance. On the one hand, the sustainability frameworks of businesses focus on processes and are designed to report at a micro (firm) level, but they lack globally agreed-upon definitions and standards. On the other hand, the SDGs comprise both a specific set of time-bound goals and a globally accepted framework for reporting at a macro level (globally, regionally, or domestically).

At the intersection of companies' sustainability frameworks and the UN SDGs stands the Greenhouse Gas Protocol (GHGP), which addresses the environmental component of sustainability, including UN SDG 13, which targets climate action. The GHGP, formed through a partnership between the World Resources Institute and the World Business Council for Sustainable Development, encompasses three scopes: the direct emissions from sources the company owns or controls (scope 1), indirect emissions from the

[1] *Sustainability in export finance*, ICC Global Export Finance Committee Sustainability Working Group, September 2021, iccwbo.org.

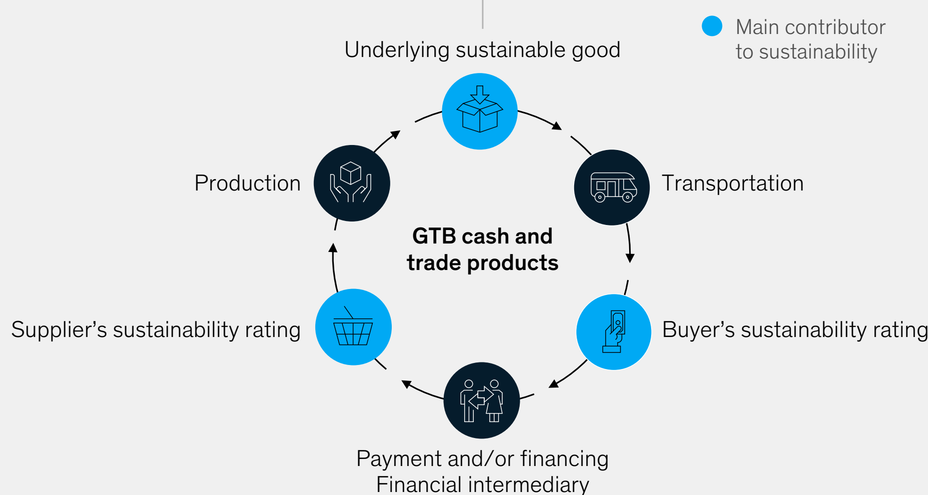
generation of purchased energy (scope 2), and all other indirect emissions occurring as a consequence of the company's activities but produced from sources not owned or controlled by the company (scope 3).[2] GTB can contribute to improved performance in all three scopes, but it is in scope 3 where it has the potential to bring the greatest impact, particularly as it addresses 15 different upstream and downstream emissions, which can be monitored with the help of transaction data collected from across the supply chain.

Each link in the supply chain, from the underlying asset or good to transportation and the final use of funds or goods, affects the sustainability rating of a trade finance or cash management product (exhibit). For both product lines, the underlying asset—say, a wind farm, solar panels, electric vehicles, goods made from recycled materials, or an agricultural good produced with sustainable farming methods—is typically the main source of impact on external parties and, consequently, the most important factor in defining the value of the product as contributing to a company's sustainability.

Note that while the GHGP categorizes greenhouse gas emissions associated with a company's corporate carbon footprint (CCF) into scopes 1, 2, and 3, this categorization does not apply to the product carbon footprint (PCF). The PCF describes the total amount of greenhouse gas emissions generated by a product or a service over the different stages of its life cycle and is calculated according to various standards, such as ISO 14067 and PAS 2050. A sustainable GTB offering should take into consideration both corporate and product impacts.

Exhibit

Sustainable trade finance and cash management products are defined by the underlying goods and the sustainability ratings of buyers and suppliers.



[1]Measured according to Greenhouse Gas Protocol accounting standards.
Source: McKinsey analysis

[2] Examples of scope 3 emissions include those resulting from "extraction and production of purchased materials; transportation of purchased fuels; and use of sold products and services." *See The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard*, revised edition, World Business Council for Sustainable Development / World Resources Institute, March 2004.

Basic sustainable products
The basic products of trade finance and cash management should incorporate sustainability features such as a basic rating methodology for qualified transactions:

— *Documentary trade finance*. For sustainable buyers or sustainability-linked transactions, banks could offer documentary trade finance, including letters of credit or guarantees, at better pricing and improved access. As an illustration, a letter of credit for the delivery of solar panels would qualify as a sustainable transaction, offered at a preferred rate to the buyer—and transferable as a sustainable trade asset.

— *Cards.* On commercial cards, banks could offer favorable terms for purchase of sustainable goods or a mechanism to compensate for high-emission expenses such as travel. In addition, this category could include other products such as acquiring and point-of-sale (POS) products with features such as rounding up each transaction to divert the surplus to sustainability projects or lowering POS or e-commerce fees for purchases of sustainable goods or purchases from merchants with higher sustainability scores.

— *Account-related liquidity.* Banks could invest deposits in sustainable assets.

— *Payments and liquidity management*. In payments, banks could offer favorable terms on transactions for sustainable underlying assets and with counterparties scoring high on sustainability. In the area of liquidity management, banks could enable virtual accounts, which can be segregated from the account structure, to separate balances and transactions related exclusively to sustainable activities. Within collections, banks could offer favorable terms on digital collections and sell CO_2 emissions credits to offset the environmental impact of cash and check transactions.

Some banks are already offering sustainable products. Examples from one bank include green guarantees and standby letters of credit, which guarantee an underlying project with a clear contribution to the environment. This solution focuses on five main sectors: renewable energy, clean transportation, waste management, sustainable water, and hydrogen. Another bank offers a sustainable deposit, which is dedicated to financing sustainable assets located in developing countries and is aligned with the UN SDGs. This offering—priced in US dollars, British pounds, and euros—is broader in scope than “green deposits,” available for several years, which focus on financing renewable-energy projects.

Supply chain ecosystems
A fully fledged sustainable supply chain ecosystem should enable suppliers and buyers to interact seamlessly, provide a robust sustainability rating methodology, and offer preferable rates to organizations that meet sustainability thresholds. The key strategic distinction of this wave is the use of advanced analytics to assess and manage ESG risk across the entire base of suppliers and buyers. For example, banks can help corporates assess the amount and types of GHG emissions that each supplier adds to total supply chain emissions and set policies for minimum standards and bidder exclusion criteria. The ratings capability (typically provided by a third party focused on sustainability assessment) is integrated within a technology platform that is usually supported by a trade fintech company.

Products in this wave include buyer-led and supplier-side trade finance:

— *Buyer-led trade finance*. With buyer-led trade finance, such as reverse factoring, the bank could pay sustainable clients’ suppliers before maturity at a more favorable financing rate than in traditional reverse factoring. Or the bank could offer dynamic discounting, in which the buyer pays suppliers before maturity in exchange for a discount on the payable amount, with the discount rate decreasing as the supplier or underlying asset becomes more sustainable.

— *Supplier-side trade finance*. Approaches to supplier-side trade finance could include invoice factoring where the invoice is discounted at a favorable rate for the supplier according to underlying sustainable assets or the involved companies’ ratings.

For example, a global bank has developed a sustainable SCF platform, one of the main partners of which is a third-party sustainability ratings agency, affording participants greater transparency and objectivity than typically available with internal key performance indicators (KPIs). The platform also provides quantifiable, external evidence of participants' ESG status in various areas, including the environment, human rights, labor, and sustainable procurement. The digital platform, developed in partnership with a fintech organization, includes market-tested capabilities for capturing, accessing, and onboarding suppliers. Fast integration of new suppliers reinforces supply chain resilience, which—along with enhanced visibility and communication on invoices—increases the value of the platform to all participants.

Another example is the launch of a sustainability-linked reverse-factoring or SCF program in Asia–Pacific to help corporate clients and their suppliers achieve their sustainability objectives and improve supply chain resilience, as well as manage working capital needs. The program includes criteria for periodic evaluation of suppliers' performance in meeting ESG standards. ESG scorings are conducted by the corporate buyer's independent assessor. Qualifying suppliers can access supply chain financing at preferential rates tied to their sustainability score.

Advisory and certification services

Advisory and certification services can support companies in their ongoing efforts to reduce GHG emissions along their value chain. These value-enhancing services, which are adjacent to sustainable GTB products and platforms, extend beyond the traditional core competency of transaction banking. By consulting on various marketwide standards and assisting clients in achieving ESG certifications and improving their ratings, banks can reinforce the trusted advisory role that any GTB institution claims to pursue and can gain a distinct competitive advantage. Banks may also consider providing an ecosystem of nonfinancial sustainable offerings, including mobility- and energy-related products.

Significantly, banks have the potential to provide comprehensive and holistic advisory on sustainability performance metrics by leveraging their extensive data sets. As an example, a bank might advise a corporate on reducing emissions along its supply chain or provide support in establishing baseline emissions of the company's suppliers or projects. It might also consult on using aids for sustainability that are available to the public at no charge, such as sustainable metrics in procurement selection, and on benchmarking with other banks or companies to raise targets and improve monitoring. In addition, banks can work with suppliers to reduce emissions linked to materials and processes. Further, they might prioritize personal engagement with small and medium-size enterprises (SMEs) to expand the reach of their advisory business, as smaller firms are typically underserved by rating agencies, which, due to their limited sales networks, tend to focus on large firms.

Banks can also support certification on emissions by standardizing the process for obtaining broadly recognized assessments of each supply chain participant's performance on environmental sustainability measures. This service would include the identification of environmental-sustainability KPIs, customized by industry and subsector, and the selection of thresholds for varying levels of compliance with GHG emissions standards. Leveraging their unique access to data along the value chain, banks can establish automated tracking systems to evaluate suppliers' performance on select KPIs.

Based on our examination of 12 banks, we have observed that sustainable GTB offerings vary according to bank size and markets served. For instance, global banks offer the broadest range of sustainability-linked trade finance and cash management products, including advanced digital platforms through which corporates and qualified suppliers may access SCF at preferential rates (Exhibit 2). However, few of these platforms operate at scale. The sustainability offering of banks operating in two or more global regions (multiregional banks) is typically limited to the

Exhibit 2

Sustainable GTB value propositions typically differ by bank segment.

□ Currently not offered or limited ■ Currently offered ● ADP[1] ● Partnership with SRA[2]

		Global banks			Multiregional banks						Domestic banks		
		A	B	C	D	E	F	G	H	I	J	K	L
Basic sustainable trade and cash products	Documentary trade finance	■	■	□	■	■	■	■	■	■	□	□	□
	Cards[3]	■	■	□	■	□	■	□	□	■	□	□	□
	Account-related liquidity	□	■	■	□	□	■	■	■	■	□	□	□
	Payments and liquidity management[4]	□	□	□	□	□	□	□	□	□	□	□	□
Sustainable supply chain ecosystem	Buyer-led trade finance	■ ADP, SRA	■ ADP, SRA	□	■ ADP, SRA	■ ADP, SRA	□	■ SRA	□	■ SRA	□	□	□
	Supplier-side trade finance	□	□	□	■	□	■	□	■	■	■	□	□
Sustainable GTB advisory and certification services		□	□	□	□	□	□	□	□	□	□	□	□

Note: Not exhaustive.
[1]Advanced digital platform.
[2]Sustainability rating agency.
[3]Includes commercial credit card and other products.
[4]Including cross-border and domestic transactions.
Source: McKinsey analysis

incorporation of basic sustainability features into trade finance products, with the majority also partnering with independent rating agencies to score suppliers on the extent of their sustainable practices. Few multiregional banks offer an advanced digital platform. Domestic banks generally focus their sustainability program on lending and currently do not offer GTB products with sustainability features.

Across banking segments, sustainable advisory and certification services are limited or nonexistent. Advanced digital platforms provide an excellent environment for scaling these adjacent services, which have the potential to contribute significantly to GTB revenue. At present, however, sustainability advisory represents white space to be explored.

Constraints to scale

With so many untapped opportunities, what is holding back banks? We see three types of constraints limiting their ability to scale sustainable GTB products:

1. lack of standards on several levels

2. limited capital available for ecosystem development and operation

3. an economically challenging business model

Lack of standards on several levels

As discussed in a McKinsey report prepared last year in collaboration with the International Chamber of Commerce (ICC) and Fung Business Intelligence,[10] diverse standards vital to creating an efficient, transparent, and wholly interoperable global system of trade finance are in varying stages of conceptualization, development, and implementation. Gaps in the development and application of standards pose challenges on several levels, from trade documentation to product definitions, data models, application programming interfaces (APIs), and shared utilities:

— *Standards for sustainable digital trade documents.* While numerous efforts have attempted to make electronic documents legally acceptable and some countries have adopted the Model Law on Electronic Transferable Records (MLETR), more effort is required to increase adoption by making the law more broadly acceptable and introducing electronic transferable records for sustainable trade.

— *Standard definitions of sustainable trade finance products.* There are disparate efforts to establish a widely accepted trade finance product taxonomy, such as that published by the Global Supply Chain Finance Forum.[11] However, the global trade finance community still lacks common definitions of "supply chain sustainability" (broadly) and "sustainable trade finance products" (more narrowly).

— *Standards for uniform sustainable trade finance data models.* Sharing information among participants is at the center of a sustainable ecosystem. A data model might, for example, govern how a specific sustainable product or company sustainability rating should be presented and which technical format should be used.

— *Standards for sustainable trade finance APIs.* Standard APIs would enable participants to connect and exchange data seamlessly with multiple networks and service providers. Adoption of standards governing the design of APIs for trade finance systems has been limited, however, and the proliferation of proprietary models increases the fragmentation of the global trade finance ecosystem. Banks continue to publish proprietary B2B APIs, just as fintechs design data models for interaction with their own platforms.

— *Standards for shared utilities.* As an example of industry efforts to establish standards for shared utilities, SWIFT announced last year that its KYC Registry would be the first global utility to integrate the ICC's Sustainable Trade Finance Guidelines for customer due diligence, which cover key areas such as sustainability commitments, capacity and track record, supply chain practices, and commodities.[12]

Limited capital for ecosystem development and operation

The capital available for investment is limited, which for banks and corporates alike poses a significant challenge to the implementation of a sustainable GTB offering. Further, a substantial investment is required to build the data platforms critical for the advanced sustainability products and services of the second and third waves (that is, a GTB digital ecosystem and advisory and certification services). As fintech valuations have dropped significantly this year, technology providers are facing new constraints in accessing capital, which may hamper development of more robust platforms.

Additional investments are needed to establish and run partnerships with the various parties involved in the trade finance ecosystem—for example, fintech companies, ratings agencies, shipping and logistics companies, banks, and technology companies. These arrangements can carry hidden costs that are often overlooked. Banks may also need to consider the potential opportunity costs that come with partnerships: the decision to enter a partnership instead of developing a capability in-house usually closes the door on other opportunities. Furthermore, the cost to unwind a partnership can be significant, should it not live up to expectations.

[10] Alessio Botta, Adolfo Tunon, Reema Jain, Pamela Mar, and Andrew Wilson, *Reconceiving the global trade finance ecosystem*, McKinsey in collaboration with the International Chamber of Commerce and Fung Business Intelligence, November 2021, McKinsey.com.
[11] *Standard definitions for techniques of supply chain finance*, Global Supply Chain Finance Forum, 2016, iccwbo.org.
[12] "SWIFT and ICC collaborate to drive sustainability in trade finance," SWIFT, March 10, 2021, swift.com.

An economically challenging business model
The third major constraint is the economic challenge of scaling an offering that relies largely on discounted pricing for sustainable companies. What is more, the gap between trade finance supply and demand has reached $1.7 trillion, with rejection rates for SMEs running at 40 percent.[13] Banks should consider how much funding can be designated for sustainable finance products in order to meet clients' needs and realize trade finance's potential contribution to the UN SDGs.

One way to address this constraint would be an asset-light model, where the bank creates a class of sustainable trade finance assets for large investors. This originate-to-distribute model creates capacity for banks to issue further credit and offers investors several advantages, typically including low default rates, short-term durations, and self-liquidation.[14] To succeed, this approach should be accompanied by continual improvements in digitization and standardization to offer investors more transparency.

Next steps: How to build a sustainability value proposition

Banks differ in how far along they are in developing a sustainability value proposition for GTB. While several have incorporated sustainability elements in select cash management and trade finance offerings, many lack a clear sustainability strategy for the enterprise. Others have launched solutions to match their competitors or in response to a client request, but these initiatives are often launched without assessing the potential impact of offering the solution to other clients.

Choose the appropriate sustainability strategy
Across global markets, any GTB service provider must consider the expectations of customers, investors, regulators, and the public and think holistically about how to add value to corporate and SME relationships with a sustainable GTB offering. Based on their starting point, banks should consider the following elements for implementing the sustainability strategy:

— *Banks without any sustainable GTB offering* should start by embedding sustainability principles and goals within their business line strategy in alignment with the bank's broader sustainability strategy. This strategic vision should also broadly identify the sectors expected to benefit the most from the bank's sustainable GTB offering.

The next step is to identify the priority products and criteria for sustainability ratings, bearing in mind that these constitute the core value added for clients from diverse industries and segments. Leaders should start by stating clearly which elements of ESG the sustainable GTB offering will cover and then—in many cases, in partnership with an ESG-ratings company—develop metrics for assessing performance to discrete objectives. These metrics can be applied, on the one hand, to the evaluation of financial instruments or products to be offered to clients and, on the other, to the establishment of sustainability ratings for SCF platform participants.

— *Banks with basic sustainable GTB products* should complete their offering by extending beyond trade finance products to enhance traditional cash management products—for example, deposits, commercial cards, and acquiring—with sustainability features. These banks will also need to build partnerships, as sustainability is part of an ecosystem where different organizations fulfill distinct roles, such as maintaining the technology platform, enabling sustainability-linked transactions, administering sustainability ratings, and managing data assets to ensure consistent execution and transparency. Selecting partners can be an arduous journey, encompassing identification and evaluation of potential partners and implementation and integration with the platform. Several cross-industry groups are developing services to leverage transaction data to reduce carbon emissions. Banks can partner with fintech or open-banking platforms to access open-banking data.

— *Banks with a leading offering* should focus on building value-added services in sustainability

[13] "Global trade finance gap widened to $1.7 trillion in 2020," Asian Development Bank, October 12, 2021, adb.org.
[14] *Reconceiving the global trade finance ecosystem*, November 2021.

Find more content like this on the
McKinsey Insights App

Scan • Download • Personalize

(such as advisory, certification, and analytics), which could help to differentiate a bank's sustainability offering. Advisory services could provide deep knowledge on regulations and insight into the implications of sustainable GTB and sustainability ratings across diverse industries. Certification should provide legitimacy and consistency in the increasingly complex population of sustainability rating agencies, and banks should be able to provide KPIs and tracking mechanisms to monitor corporate clients and their suppliers and customers. Finally, analytics should provide a rigorous framework to guide clients' and banks' decisions about how to maximize the impact of the actions taken to reduce emissions. This capability could be developed in-house or in partnership with specialized data analytics providers.

Go to market and then accelerate

Banks should define a go-to-market strategy for sustainable GTB, prioritizing sectors that have higher overall emissions and are more relevant to the institution's business. Examples of priority sectors might include energy, retail and luxury, and automotive and industrials. By targeting industries with higher scope 3 emissions, banks have greater potential to deliver a significant improvement in the sustainability performance of corporate clients and their suppliers.

Once a bank has launched any offering, it is important from the beginning for it to promote and accelerate the adoption of the sustainability offering by engaging effectively with clients in target sectors, using automated monitoring and feedback loops to improve messaging. It will also be crucial to train sales specialists for sustainability-linked products, as well as educate colleagues about the bank's overall position on ESG principles and what the new sustainable GTP offering can do for clients (and for society)—all supported by a robust digital engagement and communication strategy. Internal communication across the bank should be continuous, fast, and consistent. Sharing success stories, including public recognition of clients who achieve new levels of certification, also can strengthen engagement with both clients and colleagues.

Sustainability in GTB represents a significant opportunity for banks not only to meet their ESG objectives but also to expand revenue as they help customers meet their business and ESG needs. Moreover, the transaction banking business, through which different flows converge, has the potential to deliver an outsize impact on the reduction of societies' GHG emissions by serving as a channel to deliver tools for improving sustainable practices at client organizations in diverse industries around the globe. For all these reasons, success at sustainable GTB is an imperative; achieving it depends on implementing a comprehensive and coherent strategy.

Alessio Botta is a senior partner in McKinsey's Milan office, where **Nunzio Digiacomo** is a partner. **Joseba Eceiza** is a partner in the Madrid office, **Helmut Heidegger** is a senior partner in the Vienna office, **Reema Jain** is an associate partner in the Gurgaon office, **Francesco Mach di Palmstein** is a consultant in the Rome office, and **Markus Röhrig** is a partner in the Munich office.

The authors would like to acknowledge the contributions of John Crofoot, Prakhar Porwal, Adolfo Tunon, and Carmine Porcaro to this article.

Copyright © 2022 McKinsey & Company. All rights reserved.