# Carbon Credit Billing Made Easy with Green ECR

## Point of View


### Introduction

Over the last decade, the climate crisis has intensified, causing unprecedented disruption across the world. The world is close to the point of no return on climate change. This calls for urgent and concerted action from governments, industries, and corporates. Most importantly, it calls for not just sweeping changes in the way global business functions but also comparatively smaller, more immediate actions. Carbon credits are rapidly emerging to be an effective strategy for companies to offset their carbon footprint and plan for a net zero future. This is an opportunity for banks to strengthen their customer-centric approach by offering unique carbon offset solutions that combine access to the carbon credit market and their treasury products. A sound technology platform can help banks build, deploy, and manage their Green Earnings Credit Rate (Green ECR) solution proposition to address growing concerns around climate change.

## Background on Corporate Fee Billing

Corporate fee billing is an age-old practice used by banks to charge their corporate customers for the services they use. In some cases, products are billed individually, while in some cases various products are combined in a single statement. Additionally, banks may offer one or more schemes to give customers value for balances held in their accounts in the form of a tax-free credit. Until recently, hard interest payments on demand deposit accounts were not allowed, so banks invented a pseudo-interest known as Earnings Credit which could only be used to offset the service fees. This combination of a service charge statement with earnings credit forms the account analysis statement, and it has remained virtually unchanged for several decades.

Innovative banks have long looked for ways to increase the usefulness of earnings credit by expanding their offerings. This has led to hard interest accounts, hybrid accounts and even using earnings credit to offset third-party or BaaS related services. With rates in flux, many treasury customers are looking for creative ways to use excess balances. Banks have an opportunity to innovate on many fronts to cement their corporate customer relationships. One of the newest opportunities for banks to enhance their corporate fee billing is through Green ECR, which offers customers the ability to purchase carbon credits through a balance offset, or directly through fees.

## Background on Carbon Credits

The green revolution is upon us! As the world recognizes the damages being caused to our environment by $CO_2$ emissions, many initiatives are underway to de-carbonize our economy. Even with great technical innovation, it will likely take several decades to sufficiently reduce carbon emissions to a sustainable level. Meanwhile the concept of Carbon Offset Credits has come to the forefront as a method mitigating greenhouse gas emissions.
The concept of carbon credits gives companies the ability to plan for and set goals towards achieving a net zero carbon footprint. By establishing a net zero target date, a company can address the problem from two angles. First, it encourages technical innovation to reduce overall carbon output. Second, it provides a marketplace where companies can purchase carbon credits that invest in projects that offset their carbon emissions. A carbon credit is measured as the number of metric tons of $CO_2$ equivalent ($tCO_2e$) that a particular project will eliminate. The impact can come either from reducing carbon emissions (e.g., renewable energy sources) or increasing carbon storage (e.g., land restoration or planting of trees). To implement all of this, there are many carbon credit marketplaces that allow companies to purchase credits based on projects that align with their goals, priced on the $tCO_2e$ of the project.

## Implementing Green ECR

Banks have a substantial opportunity to combine participation in the carbon offset market with their treasury products to give their corporate customers novel carbon offset solutions while also encouraging increased deposits with the bank. We will now explore what is necessary to implement a Green ECR program.

The bank would need:

1. A deposit platform
2. A modern billing platform
3. Third-party carbon credits marketplace

With a modern billing engine like SunTec Account Analysis the bank can calculate earnings credit on investable balances along with hard interest on excess balances.

Additionally, the account analysis system must be capable of integrating with the third-party carbon credits marketplace that the bank has partnered with. Enrolled companies can use the third-party carbon credits tool to compute the total tons of $CO_2$ that they want to offset in a given time (month / quarter / year) as well as the specific projects they wish to support. Each selected project will have a specific cost per $tCO_2e$ offset which will be the price element of a service line item on the Green ECR statement. From an integration point of view, the marketplace tool will pass certain data elements to the account analysis system on a daily or monthly basis. Integration data would include:

- Name of the specific project selected in the marketplace
- Price per $tCO_2e$ for the selected project
- Total $tCO_2e$ purchased in the billing period for the selected project

These elements provide SunTec Account Analysis with the necessary price and volume for each project which will be used to list each as a line item on the Green ECR statement. By configuring these service lines as balance compensable within SunTec Account Analysis, they can be compensated either through the balances within the account or through a direct fee when the balances are insufficient. This methodology gives the bank flexibility in how they choose to offer Green ECR to their customers.

One option would be to offer a specific Green ECR account designed only for the purpose of buying carbon credits. This account would function just like any corporate transaction account and could even have a limited number of transaction-based services billed on account analysis. However, the principal purpose of the account would be to hold balances that will earn Green ECR for offsetting the carbon credits purchases. During onboarding, the Green ECR account and the project-specific service lines can be configured with the total amount of desired offset to be purchased. By knowing the monthly offset target by project, SunTec Account Analysis can use standard account analysis methods to handle excess or deficit balance positions in the account. For instance, if there is an excess in Green ECR for a particular month, that excess could be eliminated, carried forward to the next month, or compensated with hard interest through the built-in hybrid account capabilities of SunTec Account Analysis. Additionally, through the standard capabilities of SunTec Account Analysis, Green ECR could be offered not just on the balances of the green account itself, but also on the excess balances of other accounts in the customer's relationship.

Beyond the pricing and billing of the Green ECR statements SunTec Account Analysis could also be used in a real-time mode to provide daily information to a customer portal that would allow them to see the balance positions to date while forecasting balance needs for the remainder of the month. This would provide treasurers with a helpful tool to ensure they achieve their goals to offset carbon credits purchases with appropriate balance levels. The flexibility SunTec Account Analysis gives the bank a number of models through which they can offer Green ECR to their clients.

To streamline the process even further, SunTec Ecosystem Management module will allow the bank to manage all aspects of the billing contractual agreements of the partnership with one or more carbon marketplace providers in order to greatly simplify the end-to-end management of the Green ECR program.

## Scenario 1 – Bottom-up Approach

As part of their net zero by 2050 strategy, Acme Industries wanted to purchase 1,000 $tCO_2e$ of carbon credits per month through a third-party marketplace offered by the bank. From the marketplace, they chose three projects to support: 30% to The Mai Ndombe reforestation project in Africa priced at $21.84 / $tCO_2e$. 50% to the Amayo Wind Power project priced at $6.24 / $tCO_2e$; and 20% to the Phlogiston N2O Abatement project priced at $9.30 / $tCO_2e$. Each month, Acme was charged through the Green ECR statement for the following service lines as passed to SunTec Account Analysis from the marketplace:

- Ndombe Reforestation – 300 $tCO_2e$ * $21.84 = $6,552
- Amayo Wind Power – 500 $tCO_2e$ * $6.24 = $3,120
- Phlogiston Abatement – 200 $tCO_2e$ * $9.30 = $1,860

Additionally, the following bank fees were assessed on the account for maintenance and transaction usage.

- $50.00 Green-ECR Account Maintenance
- $6.70 each for 8 inbound domestic wires = $53.60
- This led to a Green ECR statement totaling $11,635.60.

The bank offered a Green ECR rate of 3.10% and Acme maintained an average daily investable balance of $3,000,000, which earned them $7,643.84 in Green ECR leaving them in a deficit position of ($3,991.76) which was direct debited from the appropriate account. To aid the customer in planning their balance levels, SunTec Account Analysis can also include on the statement the balance required multiplier of $392.47 of required balances to offset each $1 of charges as well as the total balance requirement to offset all charges of $4,566,623.93. Providing this information at the time of billing, or in advance of billing can provide valuable insight to Acme which will also encourage higher balance levels.

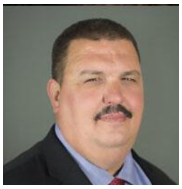
## Scenario 2 – Top-down Approach

Another business customer, Phoenix Restaurant Services, had not formalized a net zero emissions target but wanted to participate in buying carbon offsets. Phoenix typically had $1M in excess balances each month and they wanted to buy carbon credits up to the amount of their excess balances based on the projects they had selected on the third-party marketplace offered by the bank. Phoenix chose a single project they wished to support- the Manoa reforestation project priced at $23.40 / $tCO_2e$. They chose to apply all excess balances across their relationship to this effort.

In this case, SunTec Account Analysis operated in much the same way as a built-in Hybrid Interest Account is structured. When performing the account analysis on the relationship of accounts, SunTec Account Analysis calculated the total excess balances after bank services for the Phoenix accounts in the month of January to be $985,000. At a Green ECR rate of 3.10%, the excess balance generated $2,593.38. A customized section of the customer's statement displayed the green ECR earnings and the amount of 110.83 $tCO_2e$ of offsets that would be purchased for their selected project. Using SunTec Ecosystem Management Module, the reconciliation between account analysis and the vendor was directly managed.

## Conclusion

The business of banking today is rooted in customer centricity and delivering what the customer needs. And action on climate change is top of mind for most organizations. Combining treasury products with access to the climate offset market to offer Green ECR solutions is an effective way for banks to help customers achieve their climate related objectives while expanding their own solution portfolio and revenues. There are different ways in which banks could achieve this, but they need to invest in some cutting-edge foundational technology platforms to help create and bring their innovative solutions to life.

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