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Page	:	19

BANKS AS CATALYSTS FOR CHANGE

Banks have arguably taken huge steps forward in adopting ESG, given the pressure from regulators and investors, as well as the sector's huge influence in the economy. Many are setting targets and introducing sustainable finance products to help carbon-intensive sectors transition.

Compared to other sectors, financial institutions (FI) have been under more pressure to adopt ESG principles and prepare sustainability disclosures according to internationally recognised standards.

This scrutiny is due to the heavily regulated industry's influence on promoting ESG adoption in the economy through its lending activities. Already, the industry is often criticised by activists for financing coal-related businesses, deforestation activities and carbon-intensive or controversial industries.

According to the Joint Committee on Climate Change (JC3) report on sustainable finance in April, 42% of the survey respondents in the financial sector had made net zero commitments. This was ahead of Malaysian companies (18%), according to the PwC 25th Annual CEO Global Survey 2022.

FIs have submitted their first report on the application of the Climate Change and Principle-based Taxonomy on new financing and investments to Bank Negara Malaysia this year. From 2024, FIs are expected to make mandatory climate-related disclosures aligned to the Task Force on Climate-related Financial Disclosures, while the central bank will conduct climate-related stress tests for the sector.

FIs have been stepping up their game to meet these expectations. In this section, ESG highlights the experience of four local and international FIs.

1

MAYBANK PLAYING ITS ROLE AS LARGEST BANK

As the biggest bank in Malaysia by market capitalisation and total assets, a lot of expectations are riding on Malayan Banking Bhd (Maybank).

The year 2021 was considered an important one for Maybank because the group's sustainability framework and four key sustainability commitments were introduced. This year, it continued the momentum by completing its Scope 3 baseline study and launched its sustainable products framework. The latter acts as a guide to what constitutes sustainable finance, such as renewable energy adoption and transition finance for hard-to-abate sectors.

Datuk Khairussaleh Ramli, group president and CEO of Maybank, says its approach to sustainability — and the momentum of adoption — has taken the form of a strategic transformation exercise. "This is reflected through the establishment of clear governance structures, tailored capacity building initiatives for specific stakeholders within the group and development of frameworks, policies and processes to manage ESG risks and financing opportunities."

The first sustainability commitment Maybank made was to mobilise RM50 billion in sustainable finance by 2025. As at June 30, it had mobilised almost half the target (RM24 billion).

Second, it has committed to improve the lives of one million households across Asean by 2025. So far, it has reached 718,704 households through various community flagship programmes, including financial inclusion campaigns.

The bank's third goal is to achieve carbon neutrality for Scope 1 and 2 emissions by 2030 and net zero by 2050.

"Towards the carbon neutral ambition, the group has achieved 41.1% reduction in Scope 1 and 2 (2019 baseline emissions, as at June 30) via 'LED-fication' initiatives, solar panel installations and the commencement of the Malaysia Renewable Energy Certificates. Towards the net zero carbon ambition, the group has established its Scope 3 financed emissions baseline and identified a transition strategy that will shape its future business portfolio," says Datuk Khairussaleh Ramli, group president and CEO of Maybank.

Measuring financed emissions is necessary for banks to do climate scenario analysis and help them manage whatever risks they will be exposed to through their lending activities.

Maybank's fourth commitment is to achieve one million hours per annum on sustainability and deliver 1,000 significant outcomes related to the Sustainable Development Goals by 2025. As at June 30 this year, 848,354 hours have been achieved through initiatives to strengthen diversity, equity and inclusion, transparency and governance, and sustainability culture.

An interesting policy that the bank has introduced is its Mental Health Policy. Maybank has its own certified Mental Health First Aiders through a collaboration with the Malaysian Mental Health Association. It also set up #WeC.A.R.E Mental Well-being Support Channels where employees can reach out to get support.

"The bank has also extended medical coverage to include clinical psychologist services. What all these ensure is that our employees have a productive and healthy environment where they feel comfortable, safe and happy to work in," says Khairussaleh.

HURDLES ALONG THE WAY

The biggest challenge the bank faces on this journey is helping its clients, who are at different stages of the journey and have different priorities, to transition. "All that while ensuring the well-being of the communities we serve," says Khairussaleh.

The bank engages with high-emitting clients and supports them on their journey, but "we foresee that inputs from our customers and transition risk elements will affect the pace of us achieving our sustainability targets", he adds.

Some sectors will face bigger challenges in this transition due to regulatory constraints. "For this, we actively monitor government policies of the markets we operate in and prioritise countries with clear ESG requirements. We also intend to take an industry leadership position in building capabilities and solutions by embarking on strategic partnerships with key players for transition finance," says Khairussaleh.

"We do foresee that the percentage of sustainable finance against the group's overall loan portfolio composition will continue to increase as we transition together with our customers to a low-carbon economy."
KHAIRUSSALEH

Another major challenge is the absence of reliable, consistent and comparable data, he adds. Proxies are used for certain climate-related data and, where necessary, the bank has to use external data and obtain external assurance for key indicators and processes used.

THE ROAD FORWARD

As at June 30, Maybank had mobilised RM18.42 billion in sustainable finance to the non-retail

BLOOMBERG

segment, over 60% of which was for green buildings. Another RM5.56 billion was mobilised towards retail customers, and half of it was for affordable housing.

Ultimately, its RM50 billion sustainable financing goal is only slightly less than 10% of the group's total gross loans as at June 30. "We do foresee that the percentage of sustainable finance against the group's overall loan portfolio composition will continue to increase as we transition together with our customers to a low-carbon economy."

What about general financing? Screening of ESG risks is not absent, especially for high ESG risk industries, says Khairussaleh. In March, the bank launched an ESG screening document that embeds ESG considerations into the company's business evaluation process, and it has sector-level screening of ESG risks.

The bank has created ESG industry scrums and position papers for six sectors. The aim of the scrums is to identify risks associated with each industry, establish requirements and guidance to mitigate ESG risks and explore potential business opportunities.

"This has allowed for targeted engagements with our clients on integrating sustainability into their business practices, including proactive engagements with regulators, policymakers and non-governmental organisations," says Khairussaleh.

On the other hand, small and medium enterprises (SME) have been highlighted as a group sorely in need of resources. Khairussaleh says the bank will continue to support SMEs on this transition journey. "An example of such support was where Maybank Investment Bank acted as the joint lead manager for SME Development Bank Malaysia Bhd's RM500 million Sustainability Sukuk Wakalah."

Maybank hopes that the sukuk can educate SMEs on the importance of incorporating ESG considerations into their business operations.

The bank isn't going to rest on its laurels in working towards its goal to be the regional ESG leader. It intends to build segment- and business unit-specific strategies, says Khairussaleh.

"This would include enhancing our net zero measurement capabilities, establishing specific targets for all business units, establishing detailed strategies and offerings for specific business units, expanding organisational requirements and embedding sustainability more deeply into credit approvals."

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STANDARD CHARTERED MALAYSIA HELPS COMPANIES TRANSITION

Standard Chartered has the huge ambition to become the world's most sustainable and responsible bank. To achieve that goal, it has taken significant steps, such as setting 2030 financed emissions targets for the most carbon-intensive sectors and sharing its methodology in a White Paper to encourage discussion, among other things.

It also claims to be the first to execute an ESG-linked cross-currency interest rate swap and shariah-compliant and sustainable supply chain financing in Malaysia. These initiatives are important because greater adoption of ESG can help society solve challenges, the most pressing one to date being climate change, says Standard Chartered Malaysia CEO Mak Joon Nien.

Banks are well placed to tackle this problem by directing capital to those with the greatest opportunity to adopt low-carbon technology, and to those with the toughest financing and climate challenges, he adds. That's why transition finance is important because it ensures that companies, especially those in carbon-intensive sectors, have access to resources to transform.

"Markets and sectors that require the most financing to transition to low-carbon business models are often left out of green finance. In addition, in emerging markets, they tend to be the sectors that are essential for livelihoods and economic growth. The same regions can be the most vulnerable and least prepared for the increasing frequency and severity of weather events from climate change," says Mak.

"Therefore, Standard Chartered aims to support the real economy in its journey from traditional operations to transition activity and eventually to green projects."

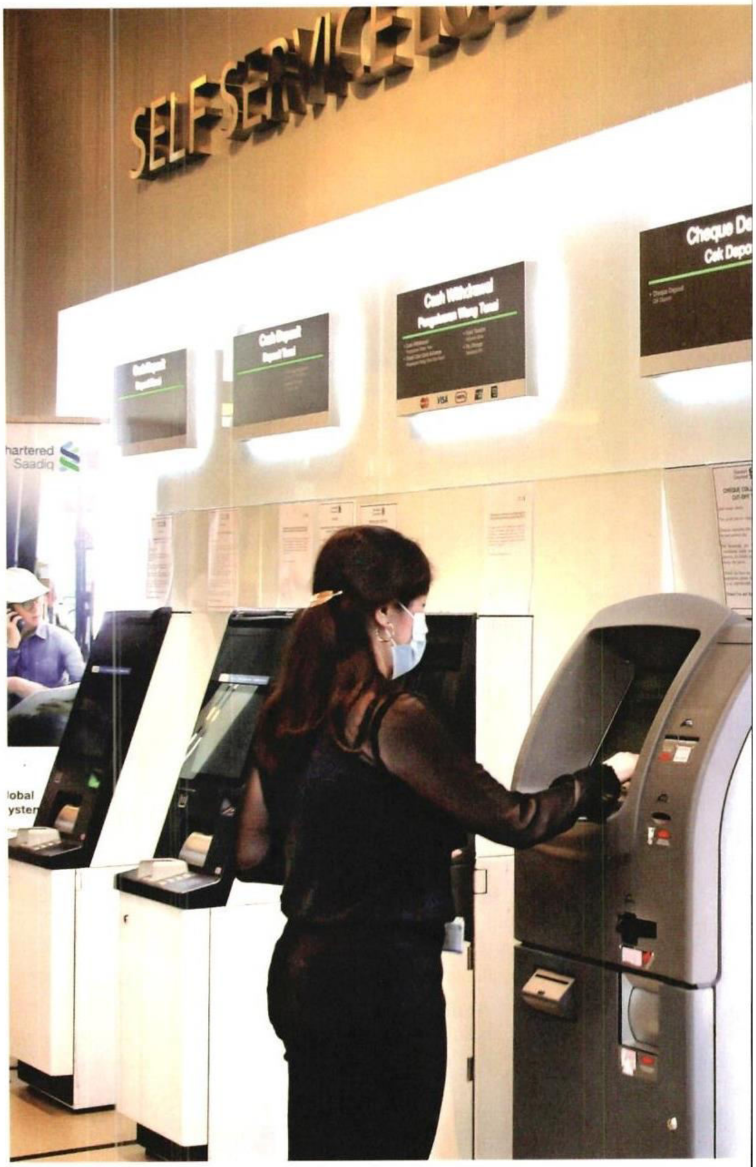
The bank partners with transition leaders in various industries and connects them to players in emerging markets, he adds. "We continue to support clients in their transition to net zero by providing advice and capital to reduce emissions as fast as possible without slowing economic development. In 2021, we launched our Transition Finance Framework as part of our commitment to facilitating the net zero transition and govern our activities in this area."

Standard Chartered has committed to mobilising US$300 billion for green and transition financing for the next decade, while reducing emissions — including its financed emissions — to net zero by 2050. It has interim 2030 targets for its most carbon-intensive sectors. For instance, it aims to reduce absolute financed thermal coal-mining emissions by 85% by 2030, in addition to a prohibition on financing new or expanding coal-fired power plants.

Sector-specific position statements will be used to assess whether financial services will be provided to clients in sensitive sectors. "For example, we will only provide financial services to clients who are less than 5% dependent on thermal coal, based on percentage of revenue, by 2030," says Mak.

By end-2022, the bank expects all of its clients in the power generation, mining and metals, and oil and gas sectors to have a strategy to transition their business in line with the goals of the Paris Agreement. This covers two-thirds of its in-scope financed emissions. Targets for remaining carbon-intensive sectors will be announced before the first quarter of 2024, says Mak.

"We are sharing our methodology transparently in a White Paper to help collective learning and encourage discussion and debate. As standards and methodologies evolve, and data quality and availability improve, we will further refine our emissions calculations."



It recently became a founding signatory to the Sustainable STEEL Principles, the first climate-aligned finance agreement for the steel industry. Signatories will measure and disclose their steel-related loan emissions. This is important because steel is a hard-to-abate industry that has high emissions.

"The SSP is designed to support the practical achievement of net zero emissions in the steel industry, as well as provide the tools necessary for client engagement and advocacy," says Mak.

"Markets and sectors that require the most financing to transition to low-carbon business models are often left out of green finance. In addition, in emerging markets, they tend to be the sectors that are essential for livelihoods and economic growth.

MAK

To help its clients on this transition journey, the bank has set up dedicated Transition Acceleration Teams for clients in high-emitting sectors.

"Standard Chartered is committed to playing a key role in supporting the government agenda to establish Malaysia as a sustainable financial hub. Leveraging the bank's deep global sustainability expertise and our rich history in the country, we are uniquely positioned to offer innovative sustainable finance solutions to help local clients pursue and achieve their ESG ambitions," says Mak.

3

UOB MALAYSIA SETS THE TONE WITH SUSTAINABLE FINANCE

Prior to 2022, UOB had been actively engaging with its customers on the importance of sustainability and sustainable finance. Things changed this year. As a sign of rising awareness, customers are proactively seeking out the bank for advice on sustainability, observes UOB Malaysia CEO Ng Wei Wei.

In fact, UOB has seen new loans approved for sustainable financing grow three times faster than those for conventional financing this year in Malaysia. The bank has been able to meet this increase in demand for sustainable financing with its five sustainable financing frameworks, which cover green buildings, smart cities, circular economy, green and sustainable trade, and transition finance.

The frameworks cover a wide scope and are meant to simplify the process for UOB's clients. They have been validated by external consultants and the exclusion criteria are aligned with international standards.

"These frameworks provide a clear and guided process that identifies the eligible projects or activities that qualify for green and sustainability-linked loans, trade finance and other retail banking products. They enable UOB to play a strong role in close collaboration with our customers to help the country transition and achieve its net zero ambitions by 2050," says Ng.

She has seen strong momentum in sustainable financing for the built environment, smart cities — which includes green buildings and solar power — and green trade finance. For example, the U-Solar programme, which is under its Smart City Sustainable Finance Framework, had facilitated the generation of almost 112.8GW hours of solar power in Malaysia since its launch in 2019 to the first half of 2022.

"This translates into a greenhouse gas reduction of 75,000 tonnes of carbon dioxide, which is equivalent to almost 1.2 million tree seedlings grown for 10 years and more than 16,000 cars taken off the road for a year," says Ng.

"However, to achieve net zero by 2050, we need collective action by corporates and financial institutions, as well as higher consumer demand for low-carbon solutions. We will also need strong policy responses, sectoral decarbonisation strategies and road maps from countries."

Incentives and investments from governments are also needed to accelerate the adoption of green financing, she adds.

UOB aims to raise its sustainable finance target from S$25 billion to S$30 billion by 2025. As at the first half of 2022, its sustainable finance commitments have totalled S$21 billion.

Meanwhile, the Bank achieved carbon neutrality in 2021. It aims to reach net zero by 2050. This commitment covers six sectors, which represent around 60% of its corporate lending portfolio. The bank has also set interim targets for 2030.

ADDRESSING CHALLENGES IN TALENT, TRANSITION AND EVOLVING STANDARDS

The relatively small talent pool of ESG professionals is a global challenge and one that Ng highlights as well. One strategy the bank introduced to resolve this is by rolling out mandatory sustainable training for all employees.

"The sustainability training for all staff is to help increase awareness of the sustainability imperative and the bank's efforts in decarbonising in a net zero future."
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"The sustainability training for all staff is to help increase awareness of the sustainability imperative and the bank's efforts in decarbonising in a net zero future," she says.

Another challenge that Ng highlights — also an often-cited one by industry players — is the need to understand the unique situation of each client as it transitions. That's why UOB has a Sector Solutions Group that focuses on nine sectors, including real estate, technology, construction and consumer goods.

"With our deep understanding of each sector, we are able to develop solutions for these sectors for each part of their sustainability journey," says Ng.

The bank's Transition Finance Framework will be used to assess companies from the hard-to-abate and energy-intensive sectors, and finance their transition plans.

The evolving nature of global and national

regulations also has to be tackled. To address this, UOB developed internationally aligned frameworks to assess companies' credentials for financing and the disclosures needed. It has also designed SME-relevant solutions and rolled out capacity-building initiatives.

Ultimately, the bank's sustainability financing portfolio is still considered modest relative to its total loan portfolio, although the segment is growing rapidly. Outside of sustainable financing, however, an ESG screening is done on all of its potential borrowers to ensure they adhere to the bank's Responsible Financing Policy, says Ng.

"As a bank, we believe in our role as a catalyst and an enabler to influence the real economy towards a net zero economy. UOB is committed to a just transition of the real economy by helping businesses across the region advance through sustainability financing. With our sector expertise and extensive ecosystem network, UOB is positioned to partner with and support our clients through their sustainability journeys as they carve out a competitive edge for themselves."

4

CIMB MAKES ITS VOICE HEARD

CIMB Group Holdings Bhd has been involving itself in leading initiatives in sustainability to stay at the forefront of change.

The bank is a founding and drafting member and one of the only two Malaysian signatories of the United Nations Environment Programme's Principles for Responsible Banking (PRB), a major sustainable banking framework. Additionally, the bank is a signatory to the Collective Commitment to Climate Action (CCCA), which aims to accelerate PRB commitments.

It claims to be the first Asean bank to join the Net-Zero Banking Alliance (NZBA) and the second to announce climate targets. Its 2030 targets for two of the most carbon-intensive sectors, thermal coal mining and cement, are aligned with the Paris Agreement's goal to limit global warming to below 1.5°C.

Locally, the CEO Action Network (CAN) was mooted by CIMB alongside its partner Impacto in 2019. CAN is a closed-door network of CEOs in Malaysia that aims to champion sustainable action. It currently has close to 60 companies represented.

"Our approach to sustainability is two-pronged. Across the ESG aspects, we seek to minimise our footprint or negative impacts, while maximising our handprint or positive impacts. The role of banks in economic growth and global trade cannot be understated as we are in the position to create net positive economic, environmental and social impacts," says Gurdip Singh Sidhu, group chief people officer and group chief sustainability officer of CIMB Group Holdings.

Being a signatory of these international alliances requires the bank to step up its action. For instance, PRB asks its signatories to publish reports and self-assessments on things like impact analysis, target setting and accountability in its sustainability report.

CCCA, meanwhile, demands a focus on the most carbon-intensive and climate-vulnerable sectors in their portfolios and sets sector-specific targets, among other things. NZBA requires its signatories to publish absolute emissions and disclose progress annually.

Most banks in Malaysia are members of the joint committee on climate change (JC3), which is co-chaired by Bank Negara Malaysia and Securities Commission Malaysia. As a member, CIMB co-authored the JC3's Task Force on Climate-related Financial Disclosures (TCFD) application guide for financial institutions.

Additionally, "we are involved in industry working groups for voluntary carbon markets, an area with significant potential in the effort to mitigate the effects of climate change", says Gurdip.

INTRODUCING INTERNAL CARBON PRICING AND A NEW FINANCING GOAL

CIMB aims to achieve net zero emissions by 2050 overall. So far, it has achieved a 22% reduction in scope one and two emissions, which it hopes to reduce to zero by 2030. An internal carbon pricing framework was introduced to accelerate these efforts. The bank also published its scope three financed emissions baseline in September.

Most recently, the bank raised its sustainable finance target to RM60 billion after having met its original target of RM30 billion two years ahead of schedule. It also executed several significant sustainable financing transactions in these two years, such as a sustainability-linked derivative in October 2021, which it claims to be the world's first in ringgit and Asia's largest by notional value.

"CIMB has certainly been proactive in the ESG space and we are proud to have achieved several firsts among domestic and Asean financial institutions. We set a high bar for ourselves in this space as we genuinely believe that it makes business sense and, just as importantly, because it's the right thing to do," says Gurdip.

SCIENCE-BASED TARGETS AND TRAINING EMPLOYEES

A major challenge that CIMB has been facing is setting science-based emissions targets for its clients across sectors and geographies. There is a lack of a single global standard and readily accessible climate data, says Gurdip.

"But there is increasing collaboration within the industry to fill these gaps," he says. So far, it has established sector guides for seven high sustainability risk sectors, which were published in June as part of its sustainable finance framework.

Getting internal buy-in from stakeholders has also been a challenge. To address this, the bank has been organising events like its flagship The Cooler Earth Sustainability Summit and internal sustainability training.

"We set a high bar for ourselves in this space as we genuinely believe that it makes business sense and, just as importantly, because it's the right thing to do."
GURDIP

At the same time, finding competent talent in this field is difficult. To address this, the bank is adding a sustainability track to its graduate trainee programme, The Complete Banker (TCB). Partners such as the Roundtable on Sustainable Palm Oil and WWF-Malaysia are added to its TCB-Fusion programme, which is also aimed at graduates.

"We are introducing mid-career internships for professionals who are keen to shift to a sustainability career track and also fostering internal talent via our soon-to-be established sustainability academy," says Gurdip.

FINANCING THE TRANSITION AND HELPING SMES

CIMB offers transition financing and sustainability-linked financing products for its clients

in various segments. Reaching net zero for carbon-intensive industries is challenging, Gurdip observes, but it is one of the most crucial steps.

"We will also continue to leverage partnerships. For instance, most recently, we entered into a memorandum of understanding with YTL-SV Carbon to support our clients in the various phases of carbon credit project development, issuance and eventual monetisation."

Currently, CIMB conducts a sustainability due diligence process on all non-retail financing, with enhanced due diligence for clients from high sustainability risk sectors. It will engage with those who do not pass the process. Some will be given approval with an agreement to implement action plans to manage sustainability risks.

To help the company navigate through potential social risks, CIMB rolled out its human rights policy in July, which provides guidance on identifying, assessing and managing salient human rights risks. "The policy, which is available on our website, seeks to ensure we deliver on our commitment to finance companies that have human rights policies in place, as well as grievance channels for stakeholders to raise concerns."

Another key segment to assist is small and medium-sized enterprises (SMEs). A couple of initiatives are targeted at this segment, including its GreenBizReady programme.

Ultimately, the bank plans to continue its progress and become an Asean sustainability leader. "We will continue to build sustainability capacity; collaborate with clients and other stakeholders to catalyse industry-wide sustainable action; broaden our scope of commitments beyond climate action; and innovate with new products and services," says Gurdip.

Analysts and ratings agencies may have mixed views of the bank's performance in ESG compared with its peers, but Gurdip emphasises that what's important is for the bank to continue engaging with its stakeholders on material matters.

"This demonstrates how analyses and rating methodologies can differ. ESG factors are complex, broad and dynamic, with standards constantly being raised as the industry collectively advances towards sustainability as the climate emergency escalates," he says.

"We recognise that we will always have room for improvement across various ESG matters and it is important that we take these different views into account and identify gaps that we should address." *By Tan Zhai Yun*