

Media Title : The Edge
 Headline : CIMB makes headway on sustainability front
 Date : 29 November 2021
 Section : Corporate
 Page : 14



CIMB makes headway on sustainability front

BY ADELINE PAUL RAJ

CIMB Group Holdings Bhd is making steady progress on the sustainability front, having recently achieved a key target — to be ranked in the top quartile of the Dow Jones Sustainability Index (DJSI) by 2024 — three years ahead of schedule.

That target had been set as a key metric for tracking CIMB's ambition of becoming a sustainability leader in Asean by 2024, group chief sustainability officer Gurdip Singh Sidhu tells *The Edge* in his first interview since taking on the role in September.

Formerly the group chief strategy and design officer at CIMB, Gurdip is now also its chief people officer, a role he took on in October last year.

In the DJSI's latest 2021 rankings, as revealed on Nov 12, CIMB — the second largest banking group in Malaysia and the fifth largest in Asean by asset size — saw its position improve to the 79th percentile, from the 69th percentile in 2020.

"When we started our sustainability journey in 2018, [our scores] were low, as measured among banks globally. We started at the 19th percentile in 2018, which meant that we were in the bottom 20% globally, on the DJSI assessment and score.

"Fast forward to the most recent one, we've managed to move up significantly. Today, we are in the 79th percentile, which means that we are in the top 25% of banks [globally]. Our goal was to achieve the top quartile by 2024, and I am proud that we were able to achieve this three years ahead of schedule," says Gurdip.

"This shows the progress we've made towards being a sustainability leader in the region. However, we must work hard to maintain or improve our ranking in the years ahead."

The DJSI tracks the performance of the world's leading companies in terms of their sustainability practices. Apart from the DJSI, CIMB also saw its rank-



Gurdip: Today, we are in the 79th percentile, which means that we are in the top 25% of banks [globally]

ings improve on other sustainability benchmarks. It moved up to the 64th percentile last year in the FTSE4Good index from the 58th percentile in 2018, while its score under the Sustainability ESG (environmental, social and governance) Risk Rating improved to 19.8 from 36.9 in the same period.

CIMB had, in September, announced a slew of stronger sustainability commitments which include mobilising RM30 billion towards sustainable financing by 2024. It raised the amount to RM30 billion, which is about 8% the size of the group's lending book as at June 30, after having made better-than-expected progress on its original target of around RM10 billion.

To help mitigate climate change, it is targeting for net zero operational greenhouse gas (GHG) scope 1 and 2 emissions by 2030 and net zero overall GHG emissions by 2050. It has also committed to a "no deforestation, no peat, no exploitation" stance, which will be implemented mid-2022 in Malaysia and thereafter in its other markets. This is on top of its existing stance of not providing any new coal financing and to eventually exit the coal sector by 2040.

Gurdip acknowledges that CIMB's sustainability commitments are not dissimilar to those of other major banks. However, he says the differentiation lies in "how and what" the group does to ensure delivery.

"I think, on the commitments itself, you will see similar categories, so

CIMB's ranking on the Dow Jones Sustainability Index

YEAR	PERCENTILE
2021	79th
2020	65th
2019	51st
2018	19th

that won't differ too much [among the banks]. But, for example, if you take our coal policy — we were the first bank here to come out and say [in 2020] that we will exit coal, and we track specific progress on that front. So, I think, making the commitment is one thing, but the next level of support to doing that [is where we make a difference]," he says.

Earnings upside possible

When CIMB started making stronger sustainability commitments, there were concerns among some stakeholders that this would have a negative impact on the group as it would have to forego certain businesses. Gurdip assures that this will not be the case.

"The way we look at it is, it's not about foregoing loans. It actually ... implies that our risk profile improves," he says. For example, a key reason for CIMB to exit the coal sector, apart from the fact that it is the right thing to do from an environmental and social perspective, is that there is "a real risk of stranded assets".

"There's a real risk that some of the clients that we are funding or funded in the past, may struggle financially as countries go through this rapid phase of embracing clean energy. Hence, it just makes business sense to reduce exposure in what we call high-risk sectors.

"We feel very comforted that, given the momentum of what's happening out there [in terms of sustainability], our decision to reduce or exit some of

these sectors that we are choosing to, will not have a lasting or any impact on us financially — firstly, because the quantum is relatively small in the whole scheme of the [loan] book, and secondly, whatever else we are replacing these with more than adequately makes up for it," he adds.

On the flip side, could CIMB's sustainability initiatives help enhance its earnings? "I'm positive that it can, but I think it's still early days in Malaysia and Indonesia, which are our two biggest markets. We think, at this stage, not yet ... but I'm hopeful that that will happen in due time," says Gurdip.

As of June 30, the group's exposure to high-risk sustainability sectors was at 7.2% of its total loan book of RM368.76 billion. Within that, the exposure to palm oil was the biggest at 3%, oil and gas (2.5%), coal (0.9%), forestry (0.7%) and mining and quarrying (0.1%).

Gurdip highlights that 7.2% is not that meaningful an exposure given that the bank has no issues with the majority of its clients within these sectors. "What people often don't fully see, is that within each one of those higher-risk sectors, there is a huge spectrum of clients and projects, and actually many of those have no sustainability risk flags. Take palm oil, for example. Within palm, it's safe to say that 89% or north of 80%, is fine."

In 2019, CIMB put in place a sustainability policy and a sustainable financing policy, which act as the group's guide on what it can or cannot do.

"To operationalise that [financing] policy, we've put in place a sustainability due diligence process. So, all the corporate and frontline bankers have a basic checklist, which is almost like a questionnaire for the clients. Based on that and the profile of the client, we have to decide whether [the loan application] requires enhanced due diligence or not," Gurdip says, explaining the bank's general screening process.

If an enhanced due diligence is needed, then the bank's sustainability team steps in to do it.

Following this, the team then makes one of three possible recommendations — "proceed with no action", which means that there are no apparent red flags; "proceed with action", which means the applicant must commit to doing certain things within the next 12 months, which the bank will then monitor; or, decline up front.

With that, the sustainability recommendation then flows into the "normal credit decisioning process", says Gurdip. As at June 30, about 12% of facility applications that CIMB had reviewed since starting this process in 2019 were given a recommendation to proceed with action, while 1% were turned down. "So, 12% were asked to commit to an action plan, and 1% were declined," he remarks.

Most analysts seem to like CIMB's recent moves to strengthen its sustainability commitments.

"Having one of the largest corporate books in Malaysia as well as some exposure in Indonesia, it is unsurprising, in our opinion, that CIMB has exposure to sectors deemed environmentally sensitive such as palm oil, coal-fired utilities and oil and gas, as these are sectors also prominent in the Asean economy," Nomura Research said in a Sept 23 report.

"However, comparing ESG strategies among banks, we feel that CIMB's strategy and commitments are much more proactive and in-depth, with a good framework and governance mechanism to move in the right direction," it added.

Nevertheless, there is still much more to be done. "Areas that remain works in progress, such as fossil fuels, are expected to be revealed no later than 2024. ESG policies are works in progress; for example, CIMB's sustainable financing policy now includes investment banking but not small and medium-sized enterprises," CLSA Research said in a Sept 23 report on CIMB. ■