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Real Change Comes From Within: Cultivating APAC's Sustainable Banking Future

Summary

Faced with a growing shortfall of junior talent, APAC's banking industry is implementing sustainable finance initiatives as a means to align with employees' personal values. This was among the findings of a survey commissioned by Accenture and carried out by Forrester Consulting on 130 decision makers and influencers on sustainable finance initiatives within the region's banks.

The other major findings of our research include:

Megatrends

- **Incentives and Covid-19 have accelerated the drive for sustainable finance**

Other major drivers of sustainable finance initiatives among banks in the region include the availability of government incentives; the uncertainty and recession caused by Covid-19, which has prompted firms to redouble their efforts to support financial inclusion and wellbeing; membership of international alliances such as the Principles for Responsible Investment (PRI); and demand from consumers.

- **Interest is ubiquitous**

The vast majority of banks in APAC have taken some form of action towards implementing relevant initiatives, with 39% having designated the issue as the top company-wide strategic priority. Only 19% have yet to take any action.

State of ESG adoption

- **"E": Reduction of greenhouse gases is the top environmental priority**

One of the headline environmental initiatives in support of that goal is a plan spearheaded by the Asian Development Bank to speed the closure of Asia's coal-fired power plants.[1] The plan is backed by several multinational financial institutions in the region, including Citi, HSBC and BlackRock.

- **"S": Data security, employee health and product safety are social priorities**

In view of heightened cyber threats following the Covid-19 outbreak,[2] data security comes first among social priorities, followed by employee health and safety and product quality and safety. Banks view improved data collection and reporting as one of the key pillars to address most of these issues.

[1] *Clara Denina and Melanie Burton, "ADB, Citi, HSBC, Prudential hatch plan for Asian coal-fired closures -sources", Reuters, 3rd August, 2021*
See: https://www.reuters.com/world/uk/exclusive-citi-hsbc-prudential-hatch-plan-asian-coal-fired-closures-sources-2021-08-03/
[2] *Chad Bray, "Cybercriminals are targeting Asia-Pacific banks and businesses as coronavirus disrupts daily life",*
South China Morning Post, 4th October, 2020
See: https://www.scmp.com/business/banking-finance/article/3104090/cybercriminals-are-targeting-asia-pacific-banks-and

- **"G": Managing systemic risk is top governance priority**

Given the insolvency and debt overhang following the Covid-19 outbreak,[3] systemic risk management is the most common governance priority. APAC's banks are looking simultaneously to internal policy and technology to address systemic risk, incorporating relevant issues in risk management policy and developing relevant digital tools and solutions.

Challenges and opportunities

- **Overcoming fear of loss and lack of data**

The survey shows the biggest barriers to adoption of sustainable finance initiatives are concerns about loss of business and revenue due to environmental, social and governance (ESG) screening, and lack of adequate, reliable and comparable data. The latter will no doubt be addressed by banks' ongoing efforts to develop digital tools and solutions and improve data collection and reporting.

- **Employee engagement is viewed as top benefit**

The main perceived benefit brought by ESG initiatives is driving higher levels of employee engagement and belonging – an important outcome in light of the industry's need to attract talent, especially at junior levels. The other benefits are largely focused on managing risk and improving the bottom line.

[3] *Liz Capo McCormick, Craig Torres, Mathieu Benhamou and Demetrios Pogkas, "The Covid-19 Pandemic Has Added $19.5 Trillion to Global Debt", Bloomberg, 27th January, 2021
See: https://www.bloomberg.com/graphics/2021-coronavirus-global-debt/*

Roadmap to sustainability

- **Incorporating sustainability will become standard**

The majority of APAC's banks already factor ESG considerations into their major decisions, and the proportion will only grow further as regulatory and consumer pressure builds.

- **Technology will enable the effort**

APAC's banks are currently focused on technology infrastructure and services as the top-priority area to enable their sustainability plans. Over the next 12 to 24 months, the focus will shift to building ecosystems/partnerships, achieving executive alignment and developing proven business cases.

- **From products to carbon footprint**

Over the same period, banks' efforts will shift from being dominated by offering relevant products to reducing their carbon footprints and/or e-waste. Of the currently offered products, those related to sustainability impact investing are the most common, followed by sustainability-linked loans. Over the coming two years, the focus is expected to shift to green loans, and green and climate bonds.

With APAC's banks seeking to align themselves with employees' personal values, a transformation of the industry's ethos could be afoot. Whereas other drivers of such initiatives are largely external, including government incentives, consumer demand and regulations, the impetus for change within banking will increasingly come from within.

Aligning with employees' values

Faced with a growing shortfall of junior talent,[4] APAC's banking industry is implementing sustainable finance initiatives in part as a means to align with employees' personal values (Figure 1). This is among the many findings of a survey commissioned by Accenture and carried out by Forrester Consulting on 267 decision makers and influencers on sustainable finance initiatives in APAC. Roughly half of these respondents represent the banking industry, of which 28% are predominantly involved in retail banking, another 28% in corporate banking, one-quarter in investment banking and 18% in funds and investment.

Other major drivers of sustainable finance initiatives among banks in the region include the availability of government incentives; the uncertainty and recession caused by Covid-19, which has prompted firms to redouble their efforts to support financial inclusion and wellbeing; membership of international alliances such as the Principles for Responsible Investment (PRI); and demand from consumers.

Figure 1: Drivers of sustainable finance initiatives

Q: How have the following megatrends impacted the implementation of your organisation's sustainable finance initiatives? (top five drivers)

	High impact	Critical impact
Employees look to work for organizations that align with their personal values. [Stakeholder]	52%	10%
Government provides more incentives to sustainable finance providers post-COVID-19. [Stakeholder]	42%	18%
The uncertainty and recession caused by COVID-19 urged financial service firms to focus on inclusive finance and financial well-being. [Social responsibility]	42%	18%
Consumers seek out financial service firms that align with their personal values. [Stakeholder]	42%	15%
The establishment of global and local regulations on sustainable finance requires financial service firms to get prepared. [Regulation & Policy]	41%	16%

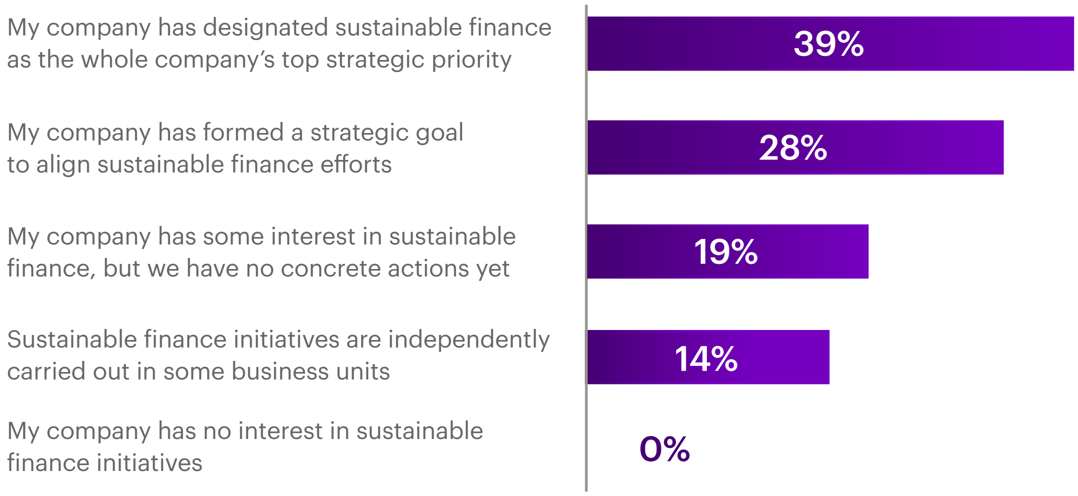
Base: 130 sustainable finance decision makers in banks in APAC
Source: A commissioned study conducted by Forrester Consulting on behalf of Accenture, July 2021

[4] *Cathy Chan and John Cheng, "Even 30% Pay Raises Can't Stop Junior Banker Exodus in Asia", 17th June, 2021*
See: https://www.bloombergquint.com/business/even-30-pay-raises-can-t-stop-the-junior-banker-exodus-in-asia

These megatrends have spurred universal interest in sustainable financial initiatives among the region's banks. The vast majority have taken some form of action towards implementing relevant initiatives, with 39% having designated the issue as the top company-wide strategic priority (Figure 2). Only 19% have yet to take any action.

Figure 2: Sustainable finance strategy

Q: Which of the following best describes the current state of your organisation's sustainable finance strategy?



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Source: A commissioned study conducted by Forrester Consulting on behalf of Accenture, July 2021

Reduction of carbon emissions tops environmental agenda

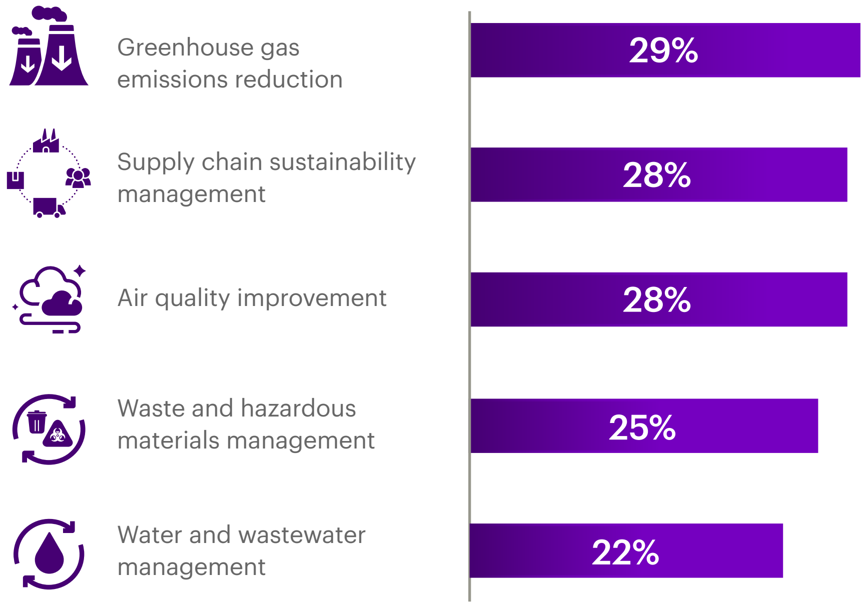
Galvanised into action by a variety of internal and external forces, banks across APAC have established clear priorities in each of the environmental, social and governance (ESG) categories.

The survey shows the reduction of greenhouse gases is the top environmental priority. Many are taking action: one of the headline initiatives in support of this goal is a plan spearheaded by the Asian Development Bank to speed the closure of Asia's coal-fired power plants.[5] The plan is backed by several multinational financial institutions in the region, including Citi, HSBC and BlackRock, along with insurance firm Prudential. The group is developing a plan to create public-private partnerships to buy out coal plants and close them within 15 years – well ahead of the current timeline for their closure.

Other major environmental priorities are managing supply chain sustainability, improving air quality, dealing with waste and hazardous materials, and getting a handle on water and wastewater.

Figure 3: Environmental priorities

Q: Please indicate the priority of the following ESG factors for your organisation *(showing top five)*



Base: 130 sustainable finance decision makers in banks in APAC
Source: A commissioned study conducted by Forrester Consulting on behalf of Accenture, July 2021

[5] *Clara Denina and Melanie Burton, "ADB, Citi, HSBC, Prudential hatch plan for Asian coal-fired closures -sources", Reuters, 3rd August, 2021 See: https://www.reuters.com/world/uk/exclusive-citi-hsbc-prudential-hatch-plan-asian-coal-fired-closures-sources-2021-08-03/*

Banks plan to adopt a largely two-pronged strategy to tackle these environmental priorities (Figure 4). They plan to increase investment in providing relevant products and they are hoping to be able to better assess and respond to the issue with technology, to which end they are developing digital tools and solutions. Banks in APAC are also looking to tighten their internal policies and processes to improve various environmental measures such as carbon emissions and supply chain sustainability.

Figure 4: Planned actions on environmental priorities

Q: Please indicate which actions your organisation will take to accomplish these ESG priorities (top three actions across respondents that identified priority)

Greenhouse gas emissions reduction		Supply chain sustainability management		Air quality improvement	
63%	Increase direct investment in this ESG priority [product]	70%	Increase direct investment in this ESG priority [product]	81%	Increase direct investment in this ESG priority [product]
63%	Develop digital tools and solutions [enablement]	62%	Tighten internal policies and processes to prevent/reduce practices that do not meet this priority [policy]	58%	Develop digital tools and solutions [enablement]
59%	Tighten internal policies and processes to prevent/reduce practices that do not meet this priority [policy]	57%	Develop digital tools and solutions [enablement]	53%	Improve data collection and reporting [enablement]
N=38		N=37		N=36	

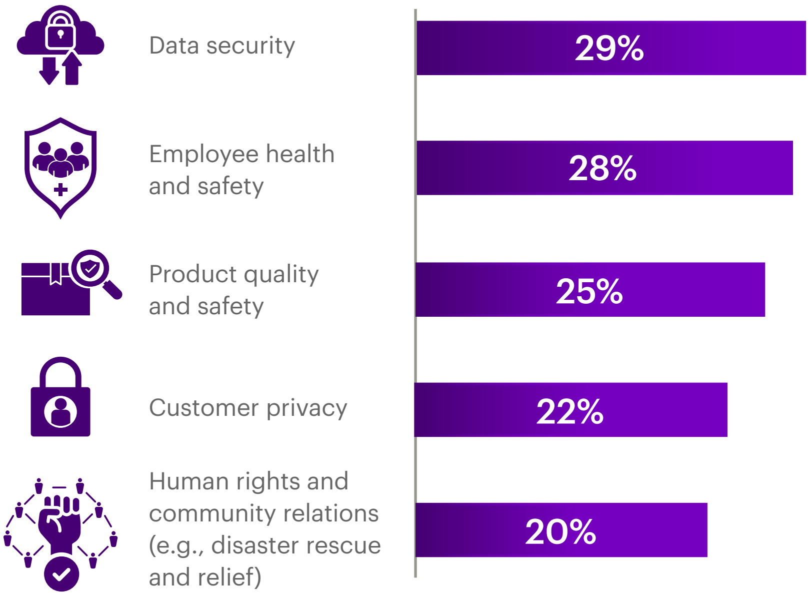
Source: A commissioned study conducted by Forrester Consulting on behalf of Accenture, July 2021

Social priorities: data security, employee health and product safety

In view of heightened cyber threats following the Covid-19 outbreak,[6] data security comes first among the social priorities of APAC's banks (Figure 5). Other major social concerns are employee health and safety, product quality and safety and customer privacy.

Figure 5: Social priorities

Q: Please indicate the priority of the following ESG factors for your organisation *(showing top five)*



Base: 130 sustainable finance decision makers in banks in APAC
Source: A commissioned study conducted by Forrester Consulting on behalf of Accenture, July 2021

[6] *Chad Bray, "Cybercriminals are targeting Asia-Pacific banks and businesses as coronavirus disrupts daily life", South China Morning Post, 4th October, 2020*
See: https://www.scmp.com/business/banking-finance/article/3104090/cybercriminals-are-targeting-asia-pacific-banks-and

Banks view improved data collection and reporting as one of the key pillars to address most of these priorities. Developing digital tools and solutions and tightening internal policies and processes are other important elements to enable the industry's social objectives. Unsurprisingly, banks, along with telcos, are by far the biggest spenders on developing data solutions in APAC.[7]

Figure 6: Planned actions on social priorities

Q: Please indicate which actions your organisation will take to accomplish these ESG priorities *(top three actions across respondents that identified priority)*

Data security		Employee health and safety		Product quality and safety	
74%	Improve data collection and reporting [enablement]	62%	Increase direct investment in this ESG priority [product]	63%	Improve data collection and reporting [enablement]
61%	Develop digital tools and solutions [enablement]	59%	Improve data collection and reporting [enablement]	53%	Tighten internal policies and processes to prevent/reduce practices that do not meet this priority [policy]
53%	Tighten internal policies and processes to prevent/ reduce practices that do not meet this priority [policy]	54%	Develop digital tools and solutions [enablement]	53%	Provide relevant products and services [product]
N=38		N=37		N=32	

Source: A commissioned study conducted by Forrester Consulting on behalf of Accenture, July 2021

[7] *Aaron Tan, "Banks and telcos lead big data analytics spending in APAC", 15th January, 2021*
See: https://www.computerweekly.com/news/252494871/Banks-and-telcos-lead-big-data-analytics-spending-in-APAC

Governance: systemic risk in focus

Given the insolvency and debt overhang following the Covid-19 outbreak,[8] it is small wonder that systemic risk management is the most common governance priority among the region's banks (Figure 7). Other major governance priorities are constant focus areas for the industry: managing legal and regulatory compliance and business ethics.

Figure 7: Governance priorities

Q: Please indicate the priority of the following ESG factors for your organisation *(top three)*

Base: 130 sustainable finance decision makers in banks in APAC
Source: A commissioned study conducted by Forrester Consulting on behalf of Accenture, July 2021

[8] *Liz Capo McCormick, Craig Torres, Mathieu Benhamou and Demetrios Pogkas, "The Covid-19 Pandemic Has Added $19.5 Trillion to Global Debt", Bloomberg, 27th January, 2021 See: https://www.bloomberg.com/graphics/2021-coronavirus-global-debt/*

APAC's banks are looking simultaneously to internal policy and technology to address systemic risk, with as many respondents saying they would incorporate relevant issues in risk management policy as those who would develop digital tools and solutions to address them. Firms also plan to increase investment in providing products associated with managing systemic risk.

Figure 8: Planned actions on governance priorities

Q: Please indicate which actions your organisation will take to accomplish these ESG priorities *(top three actions across respondents that identified priority)*

Systemic risk management

N=33

Source: A commissioned study conducted by Forrester Consulting on behalf of Accenture, July 2021

Overcoming commercial fears

Although banks in APAC have clearly defined ESG priorities and plans of action to address them, they are being held back by several issues (Figure 9). The biggest two are concerns about loss of business and revenue due to ESG screening, and the lack of adequate, reliable and comparable data. The first of these can potentially be solved by taking a longer-term perspective on the costs and benefits of sustainable finance initiatives, while the second will no doubt be addressed by banks' ongoing efforts to develop digital tools and solutions and improve data collection and reporting.

Rounding out the top five challenges are the complexity and enormity of the required transformation, a lack of solid business cases, and a lack of clear understanding of current local and global regulations, all of which suggest the need for greater education and discussion around the issue.

Figure 9: Barriers to sustainable finance

Q: Please indicate the challenges that your company faces in pursuing sustainable finance

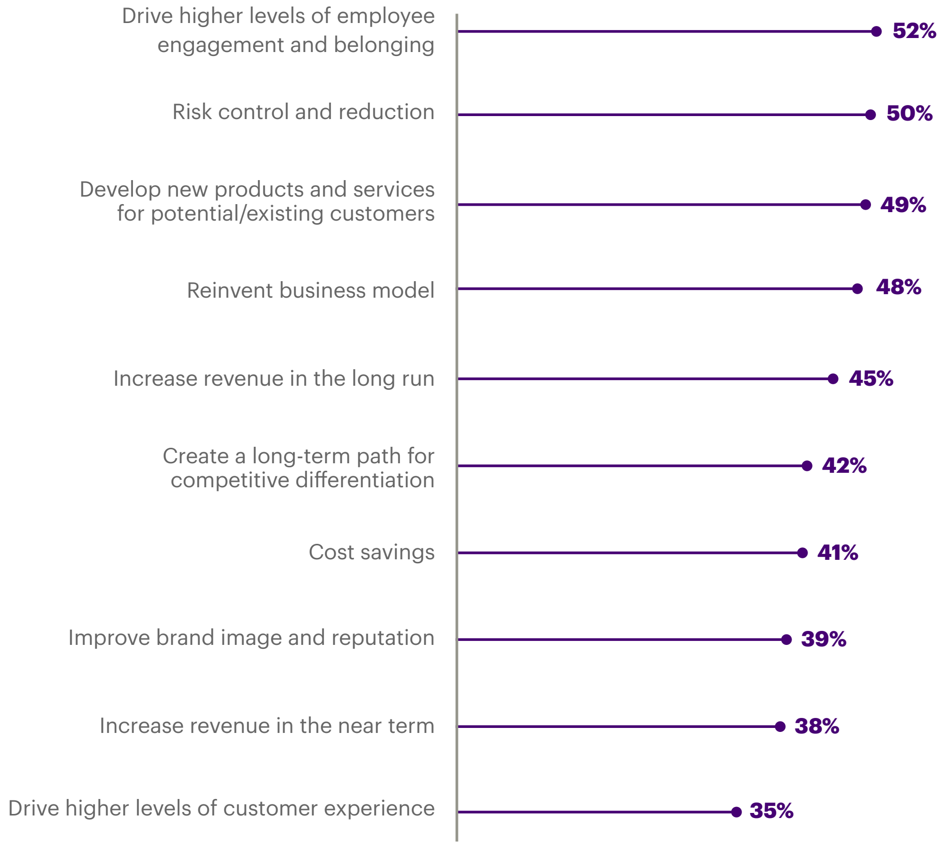
	Challenging	Very Challenging
Loss of business and revenue due to ESG screening [ROI]	38%	25%
Lack of adequate, reliable, and comparable data [Implementation]	38%	25%
The complexity and enormity of the required transformation [Strategy]	45%	18%
Lack of solid business cases [ROI]	37%	24%
Lack of clear understanding of current local and global regulations [Implementation]	36%	24%
Lack of talent and required skills for implementation [Strategy]	40%	20%
Lack of executive alignment on sustainability/ESG [Vision]	31%	27%
Lack of budget and funding to support ESG initiatives [Strategy]	36%	22%
Current technology infrastructure cannot support the transformation efforts [Implementation]	30%	27%
Lack of executive commitment to sustainability/ESG [Vision]	36%	21%
Lack of capacity and resources to dedicate specifically to sustainability initiatives and reporting [Implementation]	35%	21%
Face internal resistance to and suspicion about such initiatives [Vision]	37%	14%

Base: 130 sustainable finance decision makers banks in APAC
Source: A commissioned study conducted by Forrester Consulting on behalf of Accenture, July 2021

The main perceived benefit brought by ESG initiatives is driving higher levels of employee engagement and belonging – an important outcome in light of the industry's need to attract talent, especially at junior levels. The other benefits are largely focused on managing risk and improving the bottom line, including risk control and reduction, developing new products and services, reinventing business models and increasing long-run revenue.

Figure 10: Benefits brought by ESG initiatives

Q: Please indicate which of the following are the top organisational benefits you expect from sustainable finance initiatives



Base: 130 sustainable finance decision makers in banks in APAC
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Incorporating sustainability will become standard

ESG considerations will be increasingly factored into all the major decisions of APAC's banks. Already, the majority (61%) either agree or strongly agree that they strive to embed relevant sustainability issues in their decision-making process. As regulatory and consumer pressure builds, that proportion will only grow further over the coming years.

Figure 11: Current ESG practices

	Agree ✓	Strongly Agree ✓ ✓ ✓
We embed environmental, social, and governance issues that are relevant to our business in our decision-making process	33%	28%
We demonstrate accountability and transparency by regularly and publicly disclosing the progress in implementing the principles	29%	31%
We work together with clients and business partners to raise awareness of ESG issues, manage risks, and develop solutions	31%	26%
We set and publish targets where we can have the most significant impacts	28%	24%
We work together with governments, regulators, and other key stakeholders to promote widespread action across society on ESG issues	29%	21%

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Source: A commissioned study conducted by Forrester Consulting on behalf of Accenture, July 2021

APAC's banks are currently focused on technology infrastructure and services as the top-priority area to enable their sustainability plans, followed by performance metrics and operational processes.

An example of the use of technology to improve the measurement of ESG activities is a joint effort by DBS, Singapore Exchange (SGX), Standard Chartered and Temasek to launch a carbon exchange and marketplace that uses satellite monitoring, machine learning and blockchain technology to enhance the transparency, integrity and quality of carbon credits.[9]

Over the next 12 to 24 months, the focus will shift to building ecosystems and partnerships, achieving executive alignment and developing proven business cases. These should help garner the buy-in necessary to overcome any remaining resistance to accelerating sustainable finance efforts.

Figure 12: Priority areas to implement ESG initiatives

Q: Please select the top three priority areas to enable your company's ESG initiative implementation plan currently and in the next 12 to 24 months

Banking			
Currently		**In 12 to 24 months**	
36%	Technology infrastructure and services	39%	Build ecosystems /partnerships
35%	Performance metrics	35%	Executive alignment
33%	Operational processes	34%	Proven business case

Base: 130 sustainable finance decision makers in banks in APAC
Source: A commissioned study conducted by Forrester Consulting on behalf of Accenture, July 2021

[9] *"DBS, SGX, Standard Chartered and Temasek to take climate action through global carbon exchange and marketplace", Temasek, 20th May, 2021:*
See: https://www.prnewswire.com/news-releases/dbs-sgx-standard-chartered-and-temasek-to-take-climate-action-through-global-carbon-exchange-and-marketplace-301296205.html

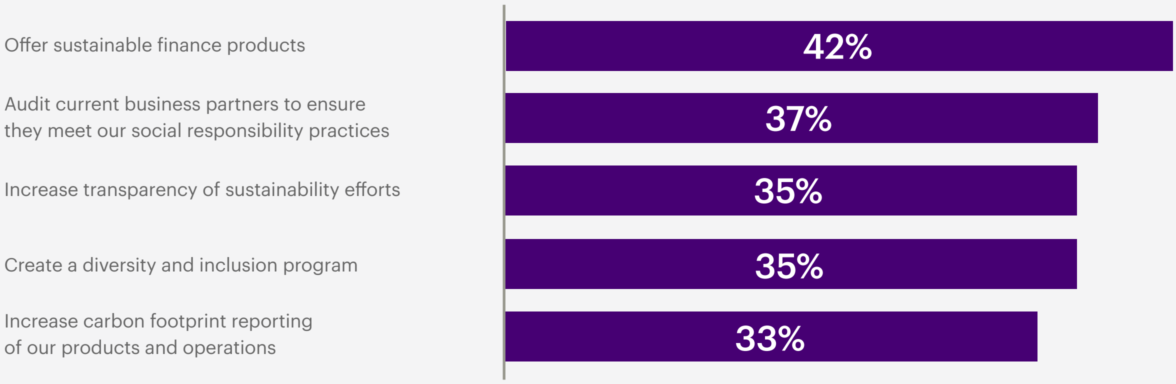
Those efforts are currently dominated by offering relevant products (Figure 13). Other common current internal initiatives include auditing business partners to ensure they meet firms' social responsibility standards, increasing transparency of sustainability efforts – another key element to achieving buy-in – and creating a diversity and inclusion programme.

Over the next 12 to 24 months, the focus will shift to reducing individual firms' carbon footprint and/or e-waste as well as increasing participation in local corporate social responsibility practices. E-waste is a significant issue, with hardware upgrades likely having increased in light of the uptick in digital transformation efforts in the wake of the pandemic. DBS in Singapore has already sent its e-waste to recycling firm Virogreen for the past few years.[10]

Figure 13: Current and planned sustainable finance initiatives

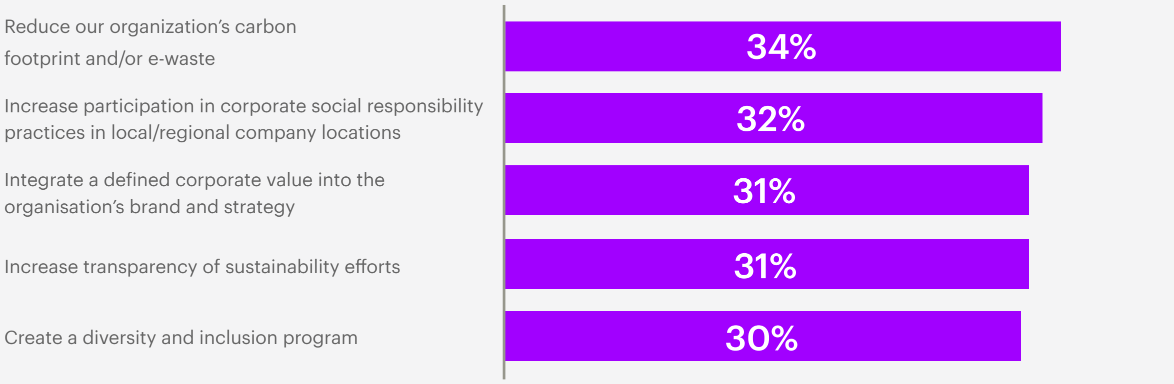
Q: To your best knowledge, which of the following internal initiatives is your organisation currently working on? What about in the next 12 to 24 months? (top five responses)

Now



Base: 105 sustainable finance decision makers in financial services industry in APAC
Source: A commissioned study conducted by Forrester Consulting on behalf of Accenture, July 2021

In 12-24 months



Base: 130 sustainable finance decision makers in financial services industry in APAC
Source: A commissioned study conducted by Forrester Consulting on behalf of Accenture, July 2021

[10] *Cynthia Choo, "A toxic trash pile grows when gadgets become waste — in a year or less", DBS, 3rd September, 2019*
See: https://www.dbs.com/livemore/tech/trash-talk-a-toxic-trash-pile-grows-when-gadgets-become-waste-in-a-year-or-less.html

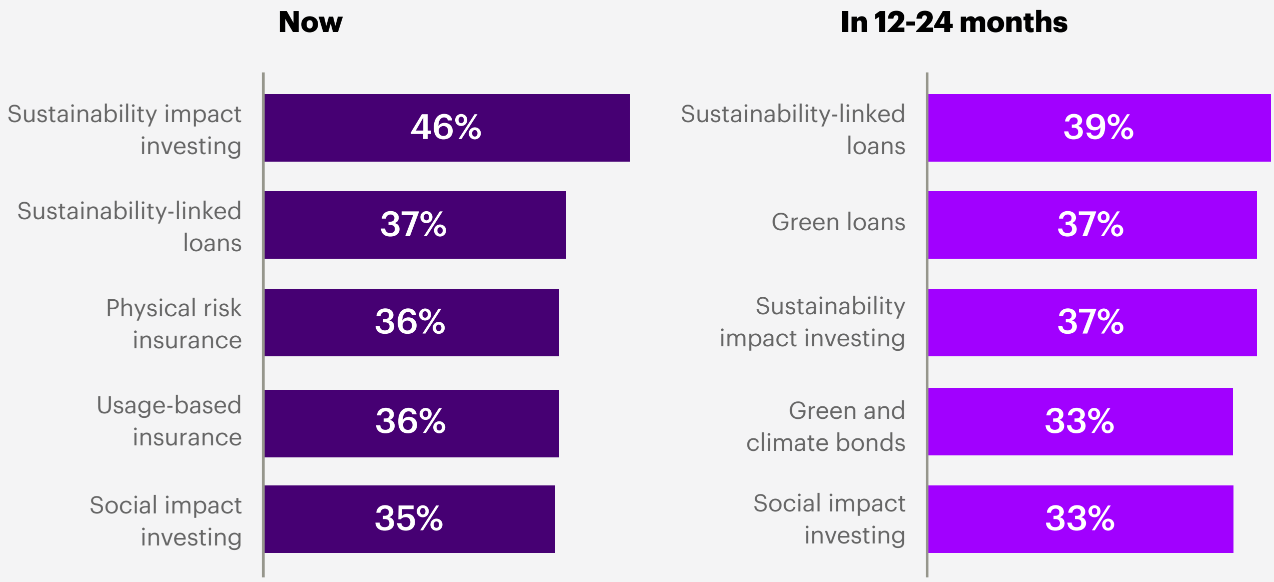
Financing sustainability with investment and loans

The most popular sustainability product currently offered by APAC's banks is sustainability impact investing, which provides capital for businesses creating social benefits across the region. One of the forerunners in this effort was the Japan Social Impact Investment Foundation (SIIF), set up by Nippon Foundation in 2017.[11] Also common are sustainability-linked loans, as well as relevant insurance products.

Over the next 12 to 24 months, the focus is expected to shift to green loans, and green and climate bonds. Green bond issuance is surging in APAC, with the region accounting for nearly one-quarter of global issuance in Q1 2021, up from 18% of the global total in 2020. Volumes from China tripled to US$26.1 billion, making it the largest issuer in the world with a market share of 13.4%.[12]

Figure 14: Current and planned products and services

Q: Which of the following types of services/products does your organisation currently provide? What about in 12 to 24 months? (top five responses)



Base: 105 sustainable finance decision makers in banks in APAC
Source: A commissioned study conducted by Forrester Consulting on behalf of Accenture, July 2021

[11] *Amanda Kee, "Making Sense of Impact investing in Asia", AVPN, 20th September, 2019*
See: https://avpn.asia/blog/making-sense-impact-investing-asia/
[12] *Akane Okutsu and Narayanan Soma Sundaram, "Green bonds grow on Asia's investors", Nikkei Asia, 28th June, 2021*
See: https://asia.nikkei.com/Spotlight/Market-Spotlight/Green-bonds-grow-on-Asia-s-investors

A transformation is afoot

Considering one of the biggest drivers of sustainable finance initiatives among APAC's banks is the need to align with employees' personal values, a transformation of the industry's ethos could be afoot. Whereas the other drivers of such initiatives are largely external, including government incentives, consumer demand and regulations, the impetus will increasingly come from within.

This may bring wider benefits than anticipated, not least of which is helping to address the talent shortfall at junior levels of the industry. Employees who are more connected to their organisation's purpose could drive productivity improvements across the board. And incorporating ESG considerations in the decision-making process could drive future outperformance in ways beyond the currently conceived cost and risk reductions, and the cultivation of new revenue streams.

The region's banks are busy building the necessary tech infrastructure and establishing performance metrics and operational processes to enable these changes. But if there's one thing our survey makes clear, it's that APAC's sustainable finance future will be decidedly human-centred.

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