

# Financial Sector as Catalyst to Sustainability

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# Sustainability is gaining traction in the financial sector

## Key developments observed



### Governance & strategy

- Board & senior management increasingly understand importance & urgency of sustainability



### Policy & framework

- Formulation of long-term sustainability strategies
- Integration of climate-related considerations into risk management framework & practices



### Product development & solutions

- Offering of new sustainable or green financial products
- Assistance to customers to adopt sustainable practices



### Reporting & disclosure

- Progressing towards adoption of TCFD\* recommendations & better quality disclosure



### Talent

- Creating staff awareness & building technical capabilities

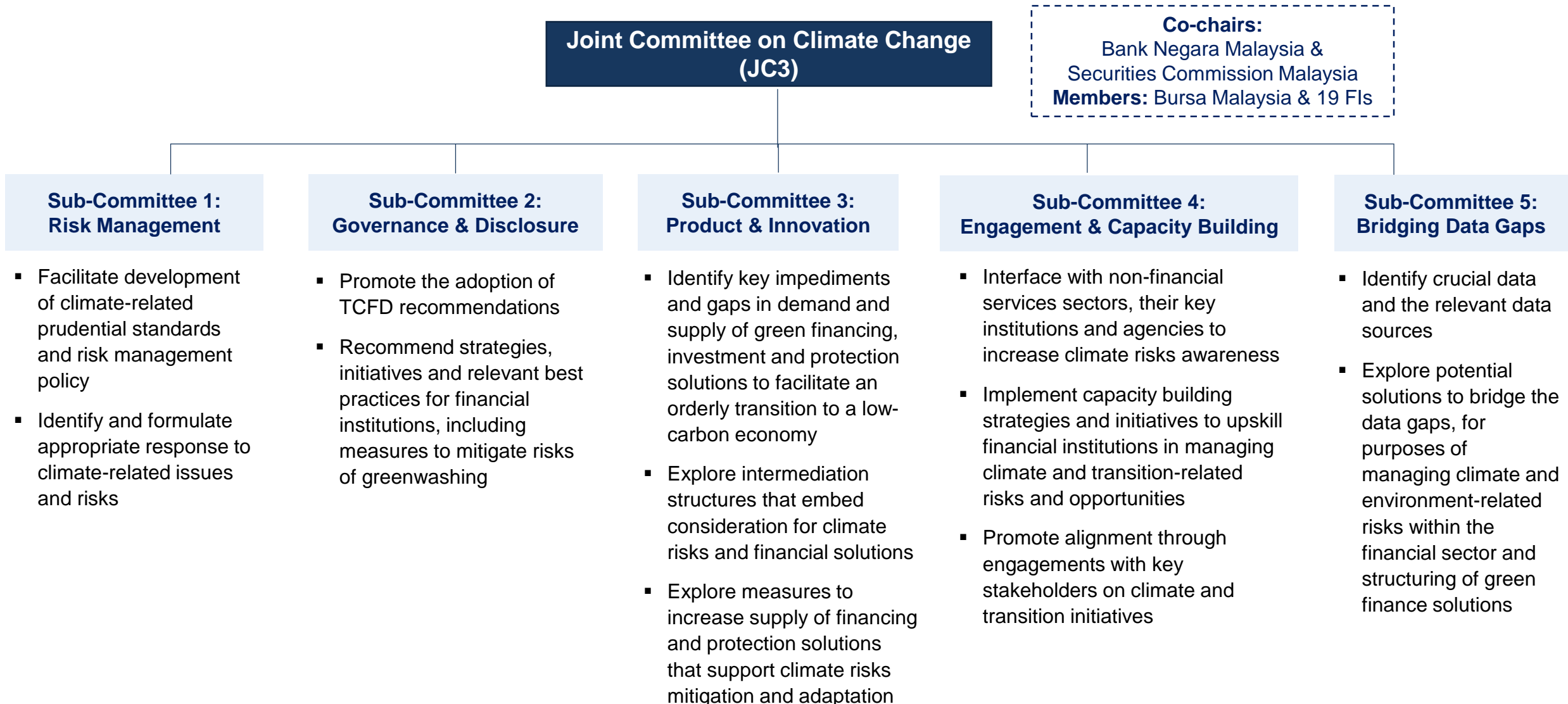


List

**More financial institutions have become signatories to UNEP FI Principles for Responsible Banking & Principles for Sustainable Insurance**

# Whole of sector approach through JC3 to ensure orderly transition to low-carbon economy

## - Minimises economic exclusion & societal displacement



## JC3's immediate priorities to build a conducive sustainable finance ecosystem



Climate Change and Principle-based Taxonomy (CCPT)<sup>1</sup>



Industry-wide climate change stress test (CCST)



Guides for Climate Risk Management and Scenario Analysis & TCFD Application Guide



Mandatory climate-risk disclosures by FIs



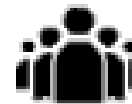
VBIAF sectoral guides<sup>2</sup> on renewable energy, energy efficiency and palm oil & manufacturing, oil & gas, and construction & infrastructure



Scaling up green & transition finance solutions  
- Partnerships between FIs & business leaders to help & nurture SMEs in value chain to transition



Actions to bridge data gaps for business strategies & risk management



Scaling up capacity building programmes



Engagements with Government & agencies

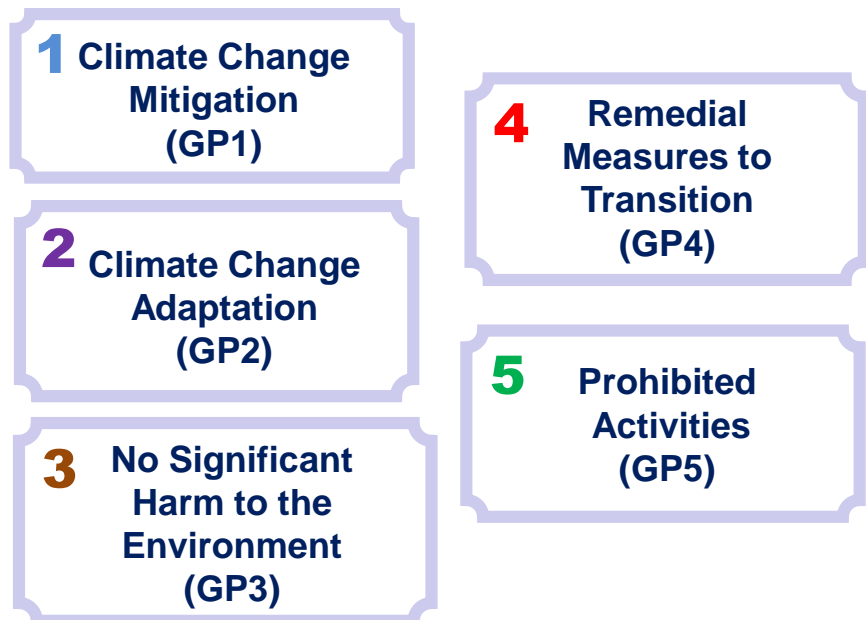


# Key features of Climate Change and Principle-based Taxonomy (CCPT)

## Main Considerations

- 1 Provides a framework that facilitates robust and consistent assessments of economic activities and their associated **impacts on climate and the broader environment**
- 2 Considers the state of economic development and **different stages of transitioning** across economic agents
- 3 **Supports transition** of economic activities that currently do not contribute to climate change objectives

## 5 Guiding Principles (GP)



## Progressive classification system to acknowledge concrete transition efforts and commitments

Classification		Economic Activity		Overall Business	
		GP1	GP2	GP3	GP4
<b>Supporting</b>	C1	GP1 or GP2 or both		✓	
Activities with positive impacts on climate change, and causing no significant harm to the environment					
<b>Transitioning</b>	C2	GP1 or GP2 or both		X	✓
Activities causing significant harm to the environment but remedial measures taken to reduce harm	C3	X		X	✓
	C4	GP1 or GP2 or both		X	X
<b>Watchlist</b>	C5	GP1 or GP2 or both		X	X
Activities causing significant harm to the environment and no remedial measures taken to reduce harm		X		X	X



# Use case 1: Financing fossil-fuel related activities

## Background

- Customer involved in both upstream and downstream
- Good track record in terms of demonstrating commitments in addressing climate change and the associated environmental impacts
- Demonstrated a clear sustainability strategy e.g. to achieve net zero carbon emissions by 2050
- Commitment to reduce GHG emissions, focusing on liquefied natural gas while transitioning towards renewable energy solutions.
- Complies to EQA 1974 and ISO 14001:2003 Environmental Management Systems certification for 80% of its exploration with target to achieve 100% by a committed timeline

## Transaction Level

**GP1**

**GP2**

- Purpose – to facilitate diversification on renewal energy.
- Meets GP1 as directly supports climate change mitigation but not adaptation.

**GP1**

**GP2**

- Purpose – facilitate expansion of upstream business
- Do not contribute to climate change mitigation or adaptation objective

## Overall Business Level

### Scenario 1 (Bond Issuance)

**GP3**

**GP4**

- Customer engages in other upstream and downstream oil and gas activities that do have potential negative effects on the environment.
- However, customer has clear plans and practices in place to support transition efforts towards a low carbon and climate resilient economy.

C2

### Scenario 2 (Revolving Credit)

**GP3**

**GP4**

- Customer's activities do have potential negative effects on the environment.
- Nonetheless, customer has clear plans and is adopting sustainable practices to support the transition efforts towards a low carbon and climate resilient economy such as commitment to reduce GHG emissions and focus on supplying low carbon fuels.

C3



## Use case 2 : Financing expansion of oil palm plantation

Background	Transaction level	Overall Business Level	
<ul style="list-style-type: none"> <li>Mid-sized customer requests for project financing to fund new cultivation on existing agriculture land and implement measures to support the adoption of sustainable practices.</li> <li>Has obtained MSPO certification covering 7 MGP* for oil palm plantation and 6 MGP for its oil palm mills as follows:               <ul style="list-style-type: none"> <li>✓ Management commitment &amp; responsibility</li> <li>✓ Transparency</li> <li>✓ Comply with legal req.</li> <li>✓ Social responsibility, health, safety and employment conditions</li> <li>✓ Environment, natural resources, biodiversity and ecosystem services</li> <li>✓ Best practices</li> <li>✓ Development of new planting</li> </ul> </li> </ul>	<p><b>GP1</b> <b>GP2</b></p> <p>MSPO certified and has taken measures to reduce GHG emissions:</p> <ul style="list-style-type: none"> <li>i) Systematically collect, accumulate and transfer oil palm biomass for processing by biofuel producer</li> <li>ii) Use of hybrid vehicles for maintenance work and transportation of palm fruits</li> </ul> <p>Has also taken measures to increase climate resilience:</p> <ul style="list-style-type: none"> <li>i) Install water harvesting system (e.g. redirecting water from drainage and storage of rainwater as contingency for dry spells periods)</li> </ul>	<p><b>GP3</b> <b>GP4</b> <b>Scenario 1</b></p> <p>Taken actions on remedial actions to reduce harm to the environment and subjected to periodic due diligence on progress of actions.</p> <ul style="list-style-type: none"> <li>i) No use of open burning for cultivation and waste disposal</li> <li>ii) Management of water table in existing peat areas to reduce peat subsidence rate i.e. release of GHG emission from peat soil</li> <li>iii) Use palm oil mill effluent as a substitute for inorganic fertiliser</li> </ul>	<p>C2</p>
<p><b>GP3</b> <b>GP4</b> <b>Scenario 2</b></p> <p>On top of the remedial actions above, customer is also implementing international best practices to substantially limit harm to environment:</p> <ul style="list-style-type: none"> <li>i) No new deforestation and no new cultivation on peatland</li> <li>ii) Maintain a ground cover of natural vegetation in existing peatland to keep surface moist, minimize irreversible drying and reduce GHG emission</li> <li>iii) Construct water management and drainage systems to maintain acceptable level of water table for existing peatland</li> <li>iv) No new cultivation on steep terrains (slope of 25 degree or more)</li> <li>v) Conduct periodic soil testing to determine its organic matter and pH structure, and maintain soil fertility</li> </ul>	<p>C1</p>		

\*MGP – Malaysian Sustainable Palm Oil General Principles

Legend : ■ Meets GP  
■ Does not meet GP

# VBIAF Sectoral Guides as ESG-risk management toolkit on selected sectors

## Key components of VBIAF Sectoral Guides

### VBIAF Sectoral Guides in development

- Oil & gas
- Manufacturing
- Construction & infrastructure

### VBIAF Sectoral Guides issued

- Palm oil
- Renewable energy
- Energy efficiency

*\*Issued on 31 March 2021*

### 1 Scope

Covers upstream, downstream/supply chain of a sector

### 2 Sector context

Provide snapshots of key national policies & targets to inform on sector relevance in contributing to national sustainable growth

### 3 Commercial proposition

Information to inform commercial viability of sector and/or certainty of project/ companies

### 4 Impact-based risk management

Salient ESG risks relevant to the sector, its risk transmission, metrics, mitigation reporting & monitoring

1. Expectation for FIs to set **internal policy statement** to set clear commitment to support these sectors/ activities through a nurturing approach.
2. Key **ESG risks and risk transmission** are provided including:
  1. Environment – land access, land-use, land-use change & acquisition, biodiversity loss & deforestation, climate/ GHG emissions, water, pollution prevention & resource use efficiency.
  2. Social – labour rights & working conditions, occupational safety & health, human rights & community relations.
  3. Governance – governance mechanism for sustainability & corruption.
3. **Customer on-boarding checklist** based on key impact categories & potential risk transmission channels.
4. **Transaction-level risk metrics & risk score** for each risk categories are provided to guide FIs in measuring the risks.
5. **Certifications** to facilitate FIs' due diligence process.
6. **GHG calculator/methodology** listed for FIs to measure & consider to disclose finance emissions & related risks of their counterparties in line with TCFD recommendations.



# Thank You

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## Offerings by financial sector - sustainable & green financial products



### Banking

- **Sustainability-linked loans**
  - CIMB
- **Green deposits**
  - CIMB EcoSave Savings Account-I
- **Preferential rates for hybrid vehicle & certified green residential properties**
  - CIMB
- **Green Loans**
  - Green Technology Financing Scheme
  - Renewable Energy Financing (Maybank, CIMB, Hong Leong)



### Insurance

- **Solar PV insurance**
  - SolarPro All Risk Insurance by Allianz Malaysia Bhd via Anora Agency Sdn Bhd
- **Environmental Impairment Liability Insurance**
  - AIG Malaysia
  - Chubb Insurance Malaysia



### Capital Markets

- **Green Bonds/SRI Sukuk**
- **SDG Bonds/Sukuk**
  - CIMB SDG bond
  - HSBC Amanah SDG Sukuk
- **Sustainability Sukuk**
  - SME Bank
- **ESG Funds/SRI Funds**
  - BIMB ESG Sukuk Fund
  - Public Mutual e-Islamic Sustainable Millennial Fund

Source: RAM Sustainability

