



Responsible banking practices in APAC

Benchmark study 2021

mazars



Contents

04	Foreword
06	Executive summary
08	Methodology
12	Geographical analysis
16	Conclusion

Mazars' third benchmark study of responsible banking practices highlights the increasing recognition by financial institutions that climate change and other environmental, social and corporate governance (ESG) risks jeopardise the world's economy and financial system.

Financial institutions need to find the right balance between managing these risks and seizing the opportunities generated by the transition to a more sustainable world.

In the wake of the COVID-19 pandemic, banks in Asia-Pacific (APAC) recognise they have an essential role to play in building a more resilient future aligned with the United Nations' Sustainable Development Goals (SDGs) and the Paris Agreement. The pandemic has served as a wakeup call for financial institutions to strengthen their efforts in reorienting capital flows and financing innovation in support of low-emissions sustainable development.

In 2021, COP26 saw some significant commitments being made to improve global sustainability disclosure standards for the financial markets. The conference issued the Glasgow Pact with pledges to "phase down" coal, increase climate finance and reaffirming a target of 1.5°C for global warming above pre-industrial levels.

Despite the progress made by banks worldwide, the full implementation of relevant practices to achieve the transition to a socially responsible and net zero economy remains a challenge.

Building on Mazars' previous report: "[Responsible banking practices, Benchmark study 2020](#)", our latest global report identifies how banks are taking collective responsibility to create the new foundations of a sustainable financial industry and contribute to building healthier economies.

Our report examines a sample of 37 banks based across all continents including 6 banks in APAC. We identify evolving best practices and developing trends in managing climate change risk and broader social and governance issues.

We segmented the 37 banks into four categories – outstanding, leaders, supporters, and followers. Similar to last year's report, one bank is ranked as outstanding, achieving a positive score against more than 95% of the criteria set in our assessment.

In this APAC report, we look into how financial institutions in the region are performing, compared to the rest of the world. While one Australian bank is ranked as a 'leader', the overall scores for the region show a significant room for improvement on governance, risk management and disclosures.

The diverse region faces a lack of standardised regulation and reporting methodology, where regulators in each market predominantly work in isolation. With Asia being the largest primary energy consumer, regulations must be bolstered to encourage sustainability-decision making and drive the ESG agenda. In effect, strong sustainability practices often come hand-in-hand with consistent industry and legal incentives.

Mazars will continue to shine a light on banking best practices relating to governance, strategy, risk management, and disclosure. By providing financial institutions with sound practices and a set of solid recommendations, we can assist banks in APAC to continue banking on sustainability and put it at the heart of their business strategies.



Justin Tan
Partner, Financial Services
Consulting APAC



Sean Choo
Partner, Financial Services
Consulting APAC





Executive Summary

Key findings

1. Most banks under review have now allocated formal responsibility for sustainability-related matters within their board and management function(s), with specific oversight processes. Although chief executive officers (CEOs) are often identified as accountable, 48% of European banks allocate this responsibility to their chief risk officers (CROs), demonstrating the prevalent risk-oriented approach from European regulators. In addition, 66% of banks now include sustainability criteria in variable remuneration (compared to 41% last year). Nevertheless, only 33% of banks identify clear criteria linked to both internal sustainability initiatives and financing activities.

Recommendation: banks should further pursue their work linking remuneration frameworks with ESG performance, taking into account both sustainable initiatives and financial activities objectives.

2. Most banks now identify environmental targets for their activities, but only 24% of them have set net zero financed emissions targets in line with the Paris Agreement objectives. Some 35% of banks initiated the Science Based Targets initiative (SBTi¹) framework for setting targets, mainly across Europe. The Paris Agreement Capital Transition Assessment (PACTA) methodology is also making progress in Europe, Australia, and South America.

Recommendation: banks should adopt methodologies such as the United Nations Environment Programme Finance Initiative (UNEP FI) Portfolio Impact Assessment Tool² to assess their impact and set relevant financed emissions targets.

3. Most banks use a variety of approaches to assess their exposure to climate change risk. Most have implemented dedicated identification and assessment processes based on tools such as physical or transition risks heatmaps and internal climate risk taxonomies. While 70% of banks are building scenario analysis and stress testing capabilities, gaps in data remain a challenge for assessing climate change risk. However, 62% of banks are developing solutions to bridge the gaps. Finally, only 19% of banks disclose on materiality of climate risk through credit or market risk metrics.

Recommendation: banks should continue developing and strengthening their climate change risk assessment methodologies and tools to disclose climate risk-adjusted credit and market risk metrics.

4. Some 92% of the banks make disclosures aligned with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations, compared to 76% last year. This increase may be due to more governments considering making TCFD reporting mandatory. The Partnership for Carbon Accounting Financials (PCAF) standards are used by 43% of banks for disclosing greenhouse gas emissions (GHG) associated with their loans and investments. Financed emissions metrics are disclosed by 62% of banks, but only 13% of banks currently use the Weighted Average Carbon Intensity (WACI) metric.

Recommendation: banks should evaluate their financed emissions, focusing on their main activities and high carbon-intensive portfolios, and expand their sustainability reporting in line with the TCFD recommendations.

State of play



1. Science-based targets provide companies with a clearly-defined path to reduce emissions in line with the Paris Agreement goals. More than 1,000 businesses around the world are already working with the Science Based Targets initiative (SBTi)

2. Developed jointly by the Positive Impact Initiative with signatories of the Principles for Responsible Banking (PRB) and UNEP FI Member Banks, the Tool helps banks analyse the impacts associated with their retail (consumer and business banking) and wholesale (corporate and investment banking) portfolios. The analysis enables banks to set targets where it matters in order to drive their contribution to society's goals, as required by the PRB.



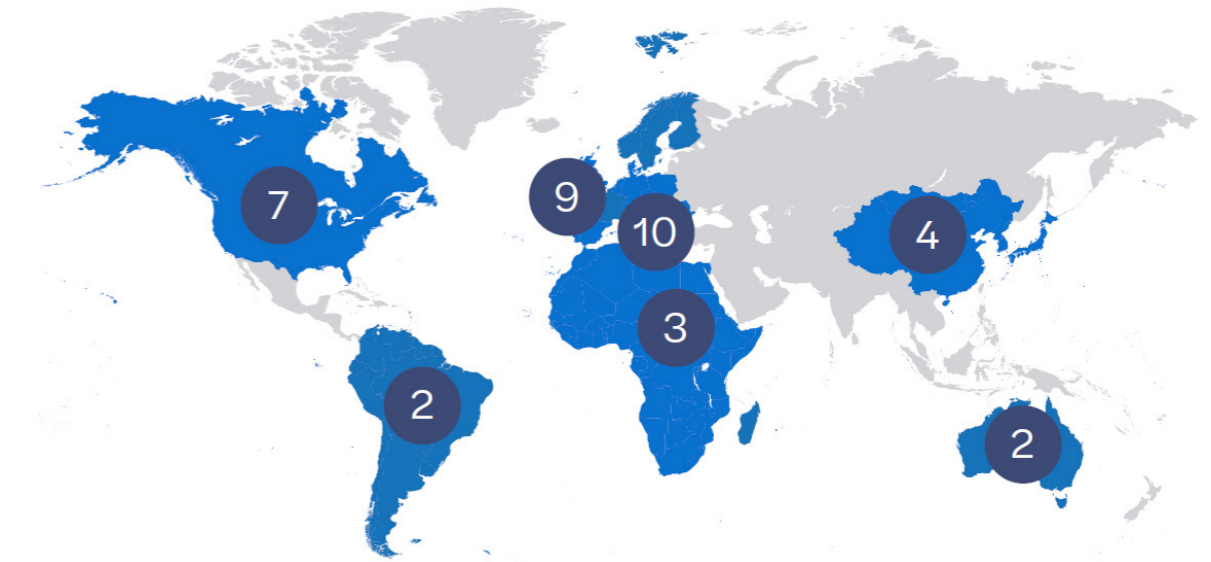
Scope

This benchmark assesses the sustainability practices of a sample of 37 banks. We have focused our analysis on banks based in Africa, the Americas, Asia-Pacific, and Europe. The banks selected are the largest, by total assets, in their respective geographies.

Most of the banks selected have demonstrated an interest in sustainability and have already advanced significantly in their sustainability journey by implementing frameworks, for example participating

in the UNEP FI and/or committing to the UNEP FI Principles for Responsible Banking (PRB).

This study builds on previous reports published by Mazars in February 2021 and 2020: [“Responsible banking practices, benchmark study 2020”](#), [“Responsible banking practices, benchmark study 2019”](#) and [“How banks are responding to the financial risks of climate change”](#)



Sample of banks

North America (7)

- Bank of America
- Citibank
- Goldman Sachs
- JP Morgan Chase
- Morgan Stanley
- Royal Bank of Canada
- Wells Fargo

South America (2)

- Banco Bradesco
- Itaú Unibanco

UK & France (9)

- Barclays
- BNP Paribas
- Credit Agricole
- Groupe BPCE
- HSBC
- Lloyds Bank
- NatWest Group (RBS)
- Societe Generale
- Standard Chartered

Europe (ex.France, UK) (10)

- BBVA
- Credit Suisse
- Deutsche Bank
- ING
- Nordea
- Santander
- SEB
- Swedbank
- UBS
- UniCredit

Africa (3)

- Absa Group
- FirstRand
- Standard Bank

Asia-Pacific (6)

- Agricultural Bank of China
- Australia and New Zealand Banking Group
- Commonwealth bank
- ICBC
- Mitsubishi FG
- Mizuho Financial Group

Methodology

Assessment process

Our analysis is based on banks' 2020/2021 reporting period and publicly available information, such as CSR/annual reports and information held on banks' websites up to July 2021.

We used an assessment matrix to evaluate the banks' approach to sustainability, covering:

- Governance
- Strategy
- Risk management
- Disclosure and reporting

Our assessment criteria are based on expectations set out by UNEP FI and global financial regulatory bodies, for embedding sustainability and for managing the financial risks from climate change. Criteria are expressed as questions, e.g. "Does the bank use scenario analysis to determine the impact of the financial risks from climate change on its risk profile and business strategy?"

Scoring and ranking

For each assessment criteria, banks that demonstrated sufficient evidence of compliance achieved a positive score. Those that did not achieve compliance with the criteria received a negative score. With an equal weighting given to each assessment criteria, banks were then ranked and grouped based on the percentage of positive scoring, as detailed in the table below.

Category	Rating bands	Performance
Outstanding	Achieved a 'positive score' in over 95% of criteria	Demonstrate a comprehensive approach that meets almost all criteria.
Leaders	Achieved a 'positive score' in 80% to 95% of criteria	Demonstrate a strong approach that meets most of the criteria.
Supporters	Achieved a 'positive score' in 60% to 79% of criteria	Demonstrate a sustainable approach across some criteria.
Followers	Achieved a 'positive score' in under 60% of criteria	Demonstrate limited evidence of a sustainable approach across the criteria.

Structure

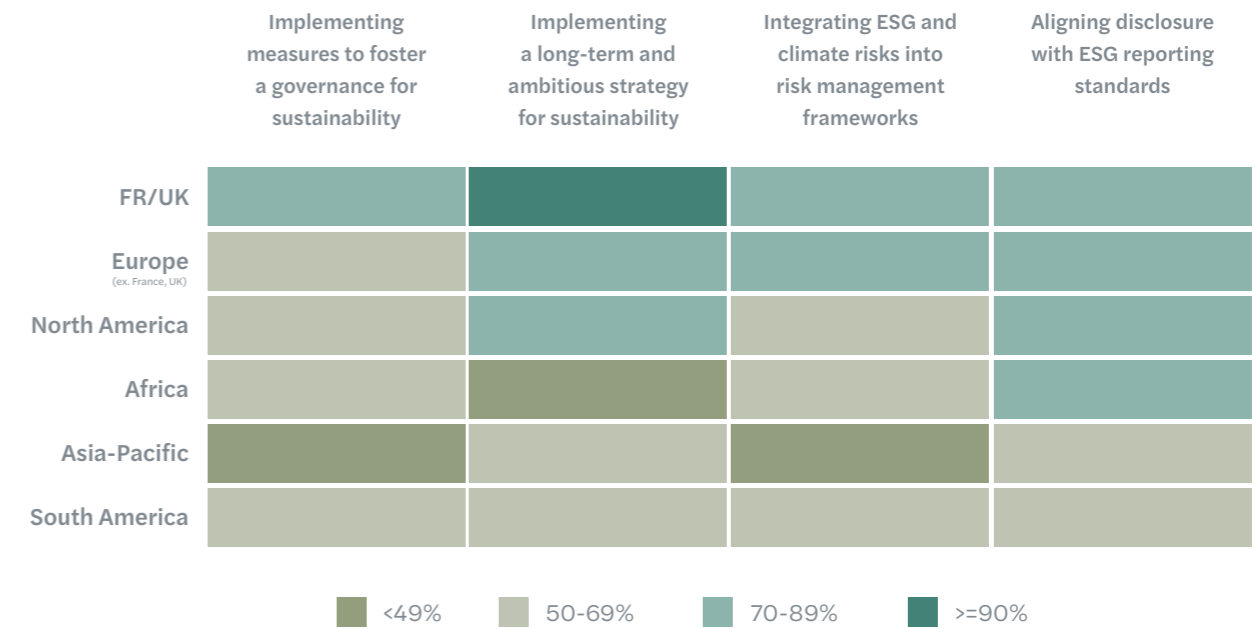
In our report, the "Key finding" sections highlight the state of play of banks' practices in the relevant area, illustrated by an overall statement and the main underlying metrics. The "Examples of leading practices" sections provide concrete examples of good practices.



Benchmark study results

Benchmark study results Geographic analysis

Criteria score per geography
(% of banks assessed)



Using the [OMFIF Sustainable Finance Policy Tracker](#) in addition to the benchmark analysis, we were able to compare trends across the regions.

Asia-Pacific

Asia-Pacific banks fall behind on governance and more

- One Australian bank is performing well with regards to Governance and Risk Management and is ranked as a leader. The new Prudential Practice Guide released in April 2021 by the Australian Prudential Regulation Authority (APRA), as well as the announcement that reporting under TCFD would be mandatory in Australia by 2024, largely explains the high performance of this bank.
- The Asia-Pacific region obtained the worst score in governance, risk management and disclosure. Significant discrepancies in the region remain between the best-performing countries and China.

- In Australia, the 10-year road map on sustainable finance explains the progress made.
- In China, the Green Finance Development Regulations enforced in 2021 will oblige listed financial companies registered in Shenzhen to disclose environmental-related information from January 2023.
- New regulation across the region is expected to build climate resilience. Singapore has announced a phased approach to mandatory climate reporting against TCFD from 2022 to 2024. In Hong Kong, the Securities and Futures Commission has issued new guidelines on enhanced disclosures for authorised funds to incorporate ESG factors, effective 1 January 2022.





Benchmark study results Geographic analysis

As a region, Asia accounts for approximately 50% of global energy consumption as well as global carbon emissions. It is therefore increasingly clear that to win the war on climate change, critical battles need to be fought and won in Asia. As a result, certain progressive Asian regulators have introduced initiatives to ramp up green finance through improving disclosures and enhancing green solutions. In May 2021, the Monetary Authority of Singapore issued a detailed implementation guide for climate-related disclosures by financial institutions, which sets out best practices aligned with the TCFD recommendations. Similarly, in July 2021, the Hong Kong Monetary Authority issued draft guidelines for climate risk management by financial institutions across areas of governance, strategy, risk management and disclosure.

Other regulators such as the Financial Supervisory Commission in Taiwan announced in August 2020 the “Green Financial Action Plan 2.0”, which aims to create financial mechanisms to increase the awareness of companies and investors on ESG issues. Based on this plan, the guidelines for the Principles for Responsible Banking (PRB) were announced. In 2021, two of the top five banks in Taiwan declared their adoption of the PRB, highlighting a noticeable trend of adopting international ESG-related principles and initiatives by banks in Taiwan. Ultimately, improved governance and risk management on climate change by financial institutions are essential steps but which also need to lead to tangible progress in the mobilisation of vast global capital to support Asia’s transition to a more sustainable future.

Roger Loh
Director, Singapore

David Chung
Director, Taiwan

Benchmark study results Geographic analysis

The risks associated with a changing climate extend across many, if not all, sectors of the economy. Each sector will face its own challenges in understanding, assessing and managing the most material climate-related risks. For firms in the finance sector, the ability to build a comprehensive understanding of their climate risk exposure will require knowledge of their own businesses exposure to climate-related risks and those of their customers and counterparties across a wide range of sectors.

In an initiative led by the Australian Prudential Regulation Authority (APRA), Australia has adopted a scenario analysis approach to assess potential financial exposure to climate risk. This initiative will give the ability to understand how Australian banks may adjust business models, implement management actions in response to different scenarios, and foster improvements in climate risk management capabilities.

Implementation will begin with Australia’s five largest banks completing a climate vulnerability assessment (CVA) stress testing programme that will inform planning for the range of potential future financial impacts that may be triggered by climate change. This assessment is expected to improve the understanding of financial risks associated with climate change by industry and Council of Financial Regulators (CFR) agencies, as well as support strategic decision-making on climate-related risks.

Angela Winton
Partner, Australia



Conclusion

Conclusion

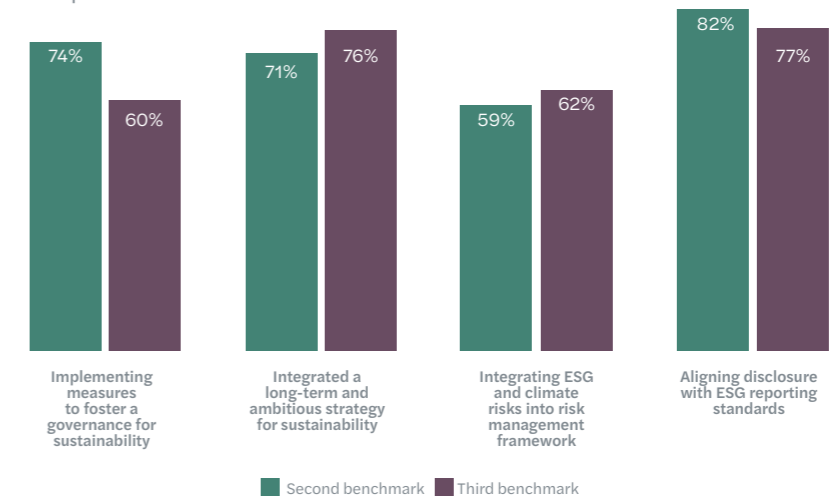
Progress made

Since Mazars' last benchmark study published in February 2021, we have tightened our criteria in all four areas assessed. This adjustment better reflects the progress made in implementing sustainability practices. It also highlights that progress remains to be made as banks continue on the pathway to sustainability and making a contribution to low carbon economies.

Despite our criteria becoming more stringent, more banks have been found to have set a long-term and ambitious strategy for sustainability. Better scores were also obtained by banks in relation to risk management.

However, the changes in our criteria led to a decrease in governance- and reporting-related scores. In reality, progress was made in these areas compared to last year, but improvements still need to take place to bridge the gap with outstanding practices.

Evolution per criteria of assessment



2021 Status Report: Task Force on Climate-related Financial Disclosures - Financial Stability Board (fsb.org)



Conclusion

What's next?

The coming years present genuine opportunities for progress in sustainability and climate change-related matters.

If the development of governmental initiatives pushes banks to pursue sustainability efforts, ESG transformation projects will be geared towards dealing with both regulatory and non-regulatory objectives.

In particular:

- The growing adoption of TCFD recommendations, with France, Germany, Italy, Canada and the US now considering making climate-related disclosures mandatory, will encourage banks to better manage climate-related risks. In Brazil and Australia, reporting under TCFD is to become mandatory by 2022 and 2024 respectively. The TCFD 2021 status report notes that, “as support from the private sector has grown, governments around the world have begun to codify aspects of the TCFD recommendations into policy and regulation, using the TCFD’s work as a foundation for climate-related reporting requirements”.³
- The development of a green taxonomy in the UK, South Africa and Australia as well as the implementation of European regulations including the EU Taxonomy Regulation and the Level 2 measures of the Sustainable Finance Disclosure Regulation (SFDR) in June 2022, will likely reinforce the quality of disclosures in those regions.
- The development of the PCAF, launched in September 2019, will drive further improvement in the assessment of climate-related risks and opportunities and the implementation of long-term strategies for sustainability. Currently, more than 145 banks and investors have subscribed to the PCAF initiative. PCAF participants work together to jointly develop the Global GHG Accounting and Reporting Standard to measure and disclose GHG emissions of their activities.
- Finally, in the medium to long term, the convergence work between the International Integrated Reporting Council (IIRC), Global Reporting Initiative (GRI) and Sustainability Accounting Standards Board (SASB), as well as the creation of a global sustainability standard by the International Financial Reporting Standards (IFRS) Foundation, should help to improve the comparability of sustainability disclosures across geographies - although it may be a while before this materialises in banks’ reporting.
- For this purpose, significant improvements in data collection and management - process, architecture, applications, and governance - will be key to achieving the transition to a sustainable economy.

Contacts

Sean Choo
Partner
sean.choo@mazars.com.sg

Justin Tan
Partner
justin.tan@mazars.com.sg

David Chung
Director
david.chung@mazars.tw

Angela Winton
Partner
angela.winton@mazars.com.au

Roger Loh
Director
roger.loh@mazars.com.sg

Mazars is an internationally integrated partnership, specialising in audit, accountancy, advisory, tax and legal services*. Operating in over 90 countries and territories around the world, we draw on the expertise of 42,000 professionals – 26,000 in Mazars’ integrated partnership and 16,000 via the Mazars North America Alliance – to assist clients of all sizes at every stage in their development.
*where permitted under applicable country laws

www.mazars.com

© Mazars 2021

mazars

3. [2021 Status Report: Task Force on Climate-related Financial Disclosures - Financial Stability Board \(fsb.org\)](https://www.fsb.org/2021/status-report-task-force-on-climate-related-financial-disclosures)