The Responsibility of Banking: Financing a sustainable future

What role can banks play in the transition to a greener future?

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The battle against COVID-19 has been difficult. It has cost lives and livelihoods and stalled economies. Lockdowns have taken a toll on people's mental and physical health and on their family relationships. Amid the lockdowns and reduced economic and social activities however, global carbon dioxide emissions fell more than six per cent last year to their lowest rate since 2006, based on research from the Global Carbon Project.

While emissions have since returned to pre-COVID levels, last year's slowdown provided a glimpse of the scale of action required. Projections by the United Nations Environment Programme show that we need a 7.6 per cent reduction per year globally for 10 years to limit global warming to 1.5 degrees above pre-industrial levels. There is a growing urgency to change the way we live, work and play to mitigate the impact of our businesses and lifestyles on the environment.

As governments around the world grapple with the best way to achieve their targets under the Paris Agreement – to peak carbon emissions as soon as possible and to achieve carbon neutrality, or net zero emissions, by 2050 – businesses and individuals are considering the most impactful way to hasten the transition from the bottom-up.

As the demand for sustainable solutions increases, it highlights the unique role of the banking industry in supporting the transition to a more sustainable future.

Helping businesses advance responsibly

The transition opportunities are immense. Research by Bain and Company estimates that Southeast Asia's green economy could offer up to US$1 trillion in annual opportunities by 2030. Banks will play a vital role in the provision of capital to finance the investment in renewables, climate adaptation technologies and the transition to a circular economy.

By being disciplined in the allocation of funding and in seeking returns, alongside a balanced scorecard that includes both profitability and sustainability indicators at the business level, banks can help to support customers and communities over the long term, ensuring that sustainability is sustainable.

As a financial intermediary, the banking sector has a responsibility to help bridge the top-down and bottom-up approaches for the betterment of the planet and its people. Doing so successfully could be a powerful catalyst for impactful change. By ensuring that finance is tied to sustainable outcomes, for example, we can help businesses advance responsibly. We are also well-positioned to channel economic flows towards the sustainable development of the region.

Last year, the Monetary Authority of Singapore (MAS) launched the world's first Green and Sustainability-Linked Loan Grant Scheme to encourage banks to develop sustainability-related loan frameworks. Such initiatives have been met with a demonstrable shift in the priorities in the banking industry. Loans linked to UOB's sustainable finance frameworks are used for projects and activities that can help tackle the environmental challenges of large urban areas while generating broader positive impact. The frameworks' defined eligibility criteria can also help our corporate clients to shape their own sustainability strategies. In 2020 alone, the total sustainable financing UOB extended to companies quadrupled that in 2019.

UOB's U-Solar programme, for example, provides competitive financing to make renewable energy accessible to businesses and individuals. The successful uptake of the programme in Indonesia, Malaysia, Singapore and Thailand contributed in part to the doubling of our renewable energy portfolio three years ahead of target.

Such solutions also highlight the responsibility of banks to be at the forefront of change. As we move towards a lower-carbon economy, it is incumbent upon the sustainable bank to adopt and to promote climate-resilient practices to support customers in this transition.

Steering wealth towards sustainable investments

The sustainable bank not only plays the role of a major economic driver, but also enables its investors and stakeholders to invest in the sustainability of the wider economy by virtue of its sizeable market capitalisation.

As sustainability becomes more mainstream, investors are increasingly seeking products with an environmental, social and governance (ESG) focus. According to Bloomberg, the world's annual sustainable debt issuances, including green and sustainability bonds, more than doubled from close to US$310 billion in 2018 to more than US$730 billion in 2020. Around 60 per cent of investors in UOB's US$1.5 billion sustainability bond offering – the first ever in Singapore – in April 2021 were sustainability-focused investors.

For individual investors in Singapore, we have in place a structured due diligence framework and have integrated ESG considerations into all of our investment products so that we can help consumers make a difference, no matter how small. A range of ESG-focused products, such as UOB Asset Management's United Sustainable Credit Income Fund, as well as private equity impact funds such as UOB Venture Management's Asia Impact Investment Fund also meet the growing demand for sustainable investments.

Driving a risk-based approach towards business, the environment and the community

ASEAN remains one of the most climate-vulnerable parts of the world. Rising temperatures and sea levels, environmental degradation and natural catastrophes continue to pose significant risks to the sustainability, liveability and economic stability of the region. In the very near future, a successful business will be one which harnesses the competitive advantages of being part of the solution.

Given their potential for exposure to both the physical and transition risks of climate change, banks must lead by example by ensuring that their business and operational practices address environmental impact. The MAS' Guidelines on Environmental Risk Management outline the need for sound risk management practices to build the resilience of the finance sector in light of the environmental risks posed by climate change, loss of biodiversity, pollution and changes in land use.

As one of the leading banks in the region, UOB is well-positioned to forge a sustainable future as ASEAN responds to the growing call for climate action. As a values-driven company, this means doing right by our customers and making decisions for the long term.

Banks must also choose to capitalise on their ability to create positive impact within communities. On top of making banking more accessible and inclusive, we need to keep the local community's social and economic development top-of-mind and to consider where and how we can enact the greatest positive change.

As governments establish and begin to accelerate the execution of their sustainability roadmaps, we in the banking sector must step up and play our part in the transition to a more sustainable future. The ability to partner with customers to catalyse change is both a privilege and a responsibility. As stewards of capital, we have the fiduciary duty to drive growth sustainably, while assuming active risk management of the potential environmental and social impact. The responsibility is great but the future demands it.