

BANKING INSIGHT

IDEAS FOR LEADERS | JUNE 2021

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Values: The New World Currency

Finally, some bite-in-bark for sustainable finance.

'No Banking on a Dead Planet'

**MANY MARKETS,
ONE COMMON
LANGUAGE**

**NOVEL
WAYS OF
THINKING IN
FINANCE**

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ASIAN INSTITUTE OF CHARTERED BANKERS





RISING TEMPERATURES, MELTING ICE CAPS, AND THE BANKING SECTOR

By Nik Shahrizal Sulaiman



■ Stronger ESG adoption is driven by financial, economic and regulatory factors.

Lately, the topic of ESG has taken centre stage in our business conversations. From business columns to webinar discussions and social media chatter, many opinions have been shared to describe the urgency of the issue.

But what exactly is ESG and how important is it really to our businesses and specifically the banking sector? For the uninitiated, ESG stands for 'environmental, social and governance' and the term is typically used in the context of how a business plays a role in sustainability and how it protects the environment and the community.

In the banking sector, there has been an increased focus on the issue of climate risk within the larger ESG agenda. On 30 April 2021, Bank Negara Malaysia (BNM) issued a guidance document titled *Climate Change and Principle-based Taxonomy* with the objective of creating a standardised set of classifications and reporting of climate-related exposures to support risk assessments in the banking sector. The intention is that by providing this guidance, it would help the industry to plan the transition towards sustainability and eventually help shift investments where they are most needed.

But how important is ESG or specifically climate risk in the context of the banking sector? Is this just a fashionable buzzword which will disappear when a new trend

comes along or does this represent a fundamental shift in terms of how we look at the role and purpose of banks within the wider community? To answer this question, we must first consider this from the perspective of history and science.

THE INDUSTRIAL REVOLUTION

The industrial revolution which started in the 18th century was probably one of the most important events in our modern history. It ushered a new age of prosperity and innovation, unparalleled in the context of economic development. Rapid industrialisation, which began in Britain, gradually expanded all over the world, and with it came rapid consumption of energy such as coal, petroleum and other forms of fossil-based energy.

However, this progress has not been without cost. An unprecedented volume of carbon dioxide has been released into the atmosphere as a result of human activities since the industrial revolution

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