



ESG THOUGHT LEADERSHIP STUDY DATA REVIEW

ROAD TO SUSTAINABLE FINANCE: MARKET MEGATRENDS

VIDEO TRANSCRIPT

00:07 Nina Jais

Welcome everyone and to our podcast series on Sustainable Finance. I'm Nina Jais, Managing Director of Sustainability Strategy at Accenture, leading our financial services for Sustainability Strategy globally. I'm absolutely psyched to have Olivia from Forrester with us today, who has done a fantastic study with us on Sustainable Finance in Asia specifically.

Today, we dive a bit into market trends, compare them at a global level versus the findings of this regional study particularly. But first, I'd like to really give you the world Oliwia, and introduce yourself and the study.

00:53 Oliwia Berdack

Thank you very much Nina. My name is Oliwia Berdack and I'm Vice President and Research Director at Forrester, responsible for Forrester's Financial Services practice. I also lead our research into Sustainable Finance. A quick introduction to the study that Accenture commissioned Forrester to do –

Obviously Sustainable Finance is really hot at the moment, but it doesn't have the same amount of attention, awareness and visibility in all regions around the world.

We surveyed over 250 decision makers and influencers at financial services institutions in APAC on Sustainable Finance, to understand some of the main drivers. *What are organizations doing in this space? How far have they built in sustainability into their strategies?* And so that's what we will be discussing today and in the series of these podcasts.

01:47 Nina Jais

Sounds great! One of the first things we wanted to clarify is What's the definition of Sustainable Finance? Is it narrower, or broader? Lots of things can be counted towards it, so let's compare notes on that.

02:05 Oliwia Berdack

Yeah, absolutely! It is a great question because we have these definitions around sustainability and finance, and of course, ESG – environmental, social and governance criteria.

At Forrester we adopted a fairly wide definition – we talk about Sustainable Finance as the inclusion of environmental, social and governance criteria in business or investment decisions, for the long-lasting benefit of clients, partners, stakeholders and society at large.

The reason we adopted this broad definition is because we didn't want to just focus on wealth management or asset management, impact investing – just the flow of capital into sustainable equities or bonds.

We wanted to think about it from both a product standpoint, the types of products that financial services firms will offer, but also how they're changing themselves as institutions, in terms of their policies, internal processes – in order to lessen their own impact on society or the environment, and improve that impact.



03:10 Nina Jais

So sustainable bank, to sustainable investing, to sustainable lending, it's all encompassed.

03:17 Oliwia Berdack

That's exactly right, and a lot of banks in APAC are now talking about becoming sustainable and adopting some of the branding around that – DBS talking about responsible banking.

There are many ways of describing this – responsible, sustainable, purposeful. It's linked to a bigger trend of society moving towards measuring broader stakeholder values, than just shareholder value.

03:47 Nina Jais

It would be helpful to reflect on how this trend unfolded, a bit from an international level; would love to hear what you would also find, specifically for Asia.

The topic is around for quite a while, if you look at impact investing as a precursor to the whole thing. This is certainly around for almost 15 years now – initially it was so slow in starting and it needed some strong figureheads. For example, in the UK with Sir Ronald Cohen driving it forward and always pushing from very small initial investments, that were more foundational that social VC led to then.

Now, the scene having completely changed, with big banks, insurers, etc. looking into this, or understanding what it means. They're trying to tap into it – going from older exclusion in investing, to more active ESG investing. So, investing on finding the opportunities from environmental, social and governance outperformance in companies, and then also doing that in organisations.

It's been a journey and I'd love to see how that whole international backdrop compares to Asia.

05:26 Oliwia Berdack

When we looked at the types of drivers behind sustainable findings, we typically talk about five different drivers –

Stakeholders including, investors, consumers, business, customers, partners, etc.

Regulations and policies, that could be very prescriptive i.e., the targets to reduce carbon emissions, or specific policies around funding Sustainable Finance activities, business opportunities to new products associated with usage-based insurance, or green finance.

Climate change, which at the moment is very topical, because there are so many different catastrophes around the world – it's really hammering the message that this is happening.

Broader social responsibility i.e., COVID-19 has really reviewed social inequities around the world and driven some social unrest.

Even the message around inclusive finance and the fact that we need to be more inclusive in how we develop products, and basically talk to the rest of the population.

If you think about these five areas of drivers in APAC, we actually see that it's the external drivers that are most important – stakeholders, regulations and policy.

If you dive a little bit deeper into the question of stakeholders *Which type of stakeholders?* It's investors that come up top, and after that business customers, suppliers and business partners, and then retail customers. That's probably consistent with what we're seeing across the globe, because investors really matter



07:15 Oliwia Berdack

At the moment, there's such a huge influx into sustainable funds – there's been higher amounts being poured into sustainable funds all over the world, and that's driven by both retail investors, but also institutional investors. They're asking questions *What is your sustainable strategy, can we include you as the company into sustainable funds?* and they want to see evidence that you are obeying some of the ESG criteria in your approach. For a lot of firms, it's about reporting compliance and responding to those requests from investors.

Business customers is interesting because in APAC, we see a lot of demand. In fact, when we conducted interviews with some of the leading financial services firms in APAC, a lot of them are very busy trying to respond to the demand for green finance particularly, because there's so many business customers who would like to tap onto new sources of funding for their big projects, so there's again the demand for greater sustainability from business, customers, and so on.

And then you have suppliers and business partners, because everybody is becoming more aware of their entire supply chain and building in checks into any kind of procurement processes, or third-party risk management to double check the impact that their partnerships will have on their own sustainability status.

That's very interesting, and curious to hear your thoughts. The stakeholders aspect is definitely the most important in APAC.

08:59 Nina Jais

Definitely over here, particularly in Europe with the regulations – the new EU taxonomy is prescribing what is now green. They started with the green piece, not with the social piece. This is very important for us and the banks, to understand what the new requirements are i.e. *How can I really steer clear of green washing particularly?*

Also, with DWS – a case that we currently have in the media, on potentially greenwashing some of their portfolio. It's on everyone's minds to comply, and to have foresight of what will be coming on for green asset ratios, i.e. the documentation behind it is quite tricky.

While the regulators are important in the European context, would love to hear a bit more about the situation in Asia and what did you find.

10:09 Oliwia Berdack

Regulations and policies are the second most important driver category around Sustainable Finance.

It's interesting that you mentioned EU taxonomy because in APAC this is working out a bit differently. Places, like Hong Kong or Singapore, are also trying to encourage the building of taxonomies to provide guidance around what constitutes things, like green activities or sustainable business activities they're in. Rather than scripting their own, like what the EU has done, they're providing incentives to financial services firms through grants, to build their own.



10:49 Oliwia Berdack

For instance, DBS has created its own taxonomy to do this; whereas in other countries, this looks a little different, so that's on the side of the taxonomies. If I think about some of the global alliances, like the principles of responsible banking, that's where you'll see huge regional differences; because in Japan and Australia – slightly more mature markets, you'll have a significantly higher number of signatories, than in places like India or Southeast Asia. There are kind of a lot of differences between each country, and that will be changing quite drastically over the coming years.

11:28 Nina Jais

Overall really interesting, at least for industry veterans, that the banking and insurance industries would really work together hand-in-hand in these same EU, UN and their own initiatives that they've put out there, like the Glasgow banking initiative.

It's really required to solve such complex issues, like climate change or other sustainability issues; it's also quite unique in the industry and makes us very hopeful.

Yet, I think it's interesting to look at the perspective from the US, where this regulation isn't as strong. Where we see for example social topics being more important, due to the different events in the past year. Diversity, equity and inclusion are absolutely critical for banks, and they think about it as almost equally important, or more than their environmental progress. So, for their own employees but also for the suppliers – that way they work, to your point, on the transparency of the full value chain, to helping with products and services for groups that might have been excluded on the client side.

So that's interesting, and interesting to hear what topics within the broad ESG arena to get prioritized in Asia.

13:08 Oliwia Berdack

Yeah, so as you've mentioned, the social aspect is becoming very, very important. The environment will be very important for a long time because climate change is really picking up the pace.

You can see buying central banks, for instance, Japan Central Bank introducing stress testing focused on climate risks and to ensure that financial services firms consider the financial risks of climate change going forwards.

But one thing that we do see in Southeast Asia, in particular, is this stronger focus on inclusive finance and financial well-being, because there is a large unbanked or underbanked population. You have this notion of being able to work with new types of providers, some of them have mobile apps, car hailing services, with built-in financial services.

Alot of financial services firms are expanding their distribution strategies and building in services into some of these digital services, in order to offer their services to a broader population. For instance, in 2020, Line Corporation launched a social banking services on their LINE app, to capture 60% of the Thai population that is either unbanked or underbanked. Within just four months it signed up 2 million users, so really a huge success story.



14:43 Oliwia Berdack

Similarly in Malaysia, insurers have been working on micro insurance products, which allows the population that normally wouldn't be buying insurance products to access insurance. That's really a huge opportunity, and there are a lot of technologies that can extend financial services to these large unbanked or underbanked populations.

15:07 Nina Jais

Super interesting, this is something learning that we need to encourage because some of these things can really leapfrog.

Also from your experience of developed countries – we do over here still have large amounts of customers that are underserved; some of the things that are developed in these regions where the need is absolutely overwhelming could also benefit our European or North American countries.

So thank you so much Oliwia, this has been super insightful, and I know we have the chance to unpack with you and Forrester on other aspects of the report, as well in in this series. Thank you so much already for now.

16:02 Oliwia Berdack

Fantastic! Thank you for having me.