

# ESG Viewpoint

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## Sustainable banking practices – visit to Thailand and Malaysia

One of BMO's engagement priorities for 2019 is to broaden our environmental and social engagement to encompass banks' lending practices. We are focusing this year on banks in the ASEAN region, which are exposed to a range of risks associated with industries including coal power and palm oil.

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### Engaging in Thailand and Malaysia

We travelled to Bangkok to give the investor perspective on sustainable banking standards at a well-attended Bank of Thailand (BoT) conference on sustainable finance. We also met one-to-one with several banks and engaged a small set of corporations in both Bangkok and Kuala Lumpur (Malaysia).

The level of awareness around sustainable banking, and around expectations from investors and civil society organisations, was high. Comparably high were worries that implementation of stronger environmental and social standards could negatively impact competitiveness. At the same time there was a reluctant acknowledgement that the banks' practices still lag Singaporean banks, the clear leaders of the ASEAN pack when it comes to sustainable banking.

Companies we met included: **Kasikornbank**, **SCB**, **Muangthai Capital**, and **PTT Exploration and Production** in Thailand. In Malaysia we met **Maybank**, **CIMB**, **AmBank** and **Public Bank**, as well as the palm oil producer **Sime Darby Plantation**.

### Thailand – regulatory pressure starts to drive change

The conference was convened by BoT and facilitated by the Worldwide Fund for Nature's (WWF) South East Asia Sustainable Finance team. The partners developed a wide-ranging agenda covering issues such as international regulatory developments and investor expectations regarding sustainable banking. It also offered practical sessions on how to implement effective environmental and social risk (ESR) frameworks, including engagement and due diligence on sustainability issues with potential borrowers.



“Next to managing their own climate risk exposure in balance sheets, banks play a crucial role in mobilising capital for the investment needs that are required by the shift towards a low-carbon economy.”

Our presentation focused on explaining our approach to engagement, which aims at addressing material environmental, social and governance risks through constructive dialogue. We also outlined the focus of our ASEAN sustainable banking initiative, through which we aim to enhance banks’ risk management processes, sustainability-related product development, as well as disclosure practices. We made clear that the implementation is a long journey, with a clear ‘tone from the top’ with senior management commitment and support being essential for success.

#### Takeaways from bank meetings included:

- The Thai Bankers’ Association is currently developing guidelines for the country’s banks to develop and implement ESR frameworks, particularly for their lending activities. The effort is supported by the BoT.
- This has driven banks to start establishing policies and due diligence procedures for environmental and social criteria. Leaders in the field have disclosed the number of transactions reviewed under the umbrella of their ESR policies, but also report that their procedures only apply to a very small part of their business.
- With risk procedures still lacking depth and breadth around climate risk management, all banks have highlighted climate change as a major risk and a strategic topic to watch. Two banks have started to investigate responding to the Task Force on Climate-related Financial Disclosure recommendations. Both confirmed that they are at the very beginning and that execution has proven to be challenging.

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We will continue to push for the development of thorough ESR frameworks

- With regulatory requirements around data protection and data security expected soon, Thai banks are actively – to varying degrees – preparing to meet demands. The more advanced are hiring international experts, appointing data protection officers, and overhauling internal security measures.

#### Malaysia – slower progress, so far

Malaysian banks and industry associations seem to look enviously to the North, yet movement around sustainability seems to be slower overall. In our view, this has been mainly driven by the lack of regulatory pressure and, importantly, widely-held competitiveness concerns. The perception that requesting higher environmental and social risk management standards from borrowers can push them away to more ‘lenient’ banks is very much ingrained among bankers and relationship managers.

There are exceptions, however. We met one of the largest banks in the country, who fully acknowledged that failure to address environmental and social issues as part of overall credit risk management can impact the quality of loan portfolios. It is therefore further strengthening its ESR management policies and systems.

#### Outlook

All in all, both markets show positive movement either from some of the banks or, as in Thailand, from the determined regulator. However, there are still significant gaps that need to be addressed. We will continue to push for the development of thorough ESR frameworks, including dedicated policies for high environmental and social risk areas – such as palm oil and coal financing, along with a more detailed reporting and disclosure.

Next to managing their own climate risk exposure in balance sheets, banks play a crucial role in mobilising capital for the investment needs that are required by the shift towards a low-carbon economy. These business opportunities shouldn’t be missed, and we will further encourage ASEAN banks to become more active in this area.

### Key risks

The value of investments and any income derived from them can go down as well as up as a result of market or currency movements and investors may not get back the original amount invested.

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### How BMO Global Asset Management can help you

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#### Best ESG Research Team 2018



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