

Evolving ESG and Green Finance Landscape Require Greater Awareness by Banks

環境、社會及管治與綠色金融續有發展 銀行須提高意識



Environmental, Social and Governance (ESG) issues have come sharply into focus among banks, financial institutions and their regulatory bodies, especially as governments are focusing on the direction the long-term response to COVID-19 should take. In many instances, the ongoing health crisis has accelerated pre-existing trends towards greater ESG integration by underscoring the role the business and banking sectors can play in confronting societal and environmental issues.

銀行、金融機構及金融業監管機構日益關注環境、社會及管治(ESG)範疇,尤其當各地政府致力探索長遠應對新冠肺炎疫情的方向之際,ESG更成為金融服務業界關注的重點。疫情持續構成的健康危機,往往突顯商界和銀行界在應對社會和環境事宜中可發揮的作用,加快了在業務中融入ESG元素的發展趨勢。

The growing interest in ESG – and the demand for products such as ESG-related funds – has been an unmistakable trend over the last couple of years. It could even be argued that ESG sceptics have been largely silenced. Within the ESG space, the emergence of Green Finance has been particularly significant, as it addresses the imminent challenge of climate risk head on.

As set out in this article, the rise of Green Finance has been essentially market-driven. This has prompted banks and other financial institutions to respond to what is both a client need and a real business opportunity. At the same time, the regulators and other bodies are playing a key role in raising awareness and facilitating market appetite.

The formation in 2017 of the Network for Greening the Financial System (NGFS), which comprises 83 central banks and financial supervisors, was a key development in the international regulatory landscape. In Hong Kong, the Hong Kong Monetary Authority (HKMA) and the Securities and Futures Commission (SFC) have established the Green and Sustainable Finance Cross-Agency Steering Group, which includes Hong Kong Exchanges and Clearing Limited (HKEX), the Mandatory Provident Fund Schemes Authority (MPFA) and the Insurance Authority, as well as various government departments. Since its establishment, the Steering Group has been stepping up its efforts to coordinate pertinent issues in the financial sector in Hong Kong, while supporting international initiatives and alignment to strengthen Hong Kong's financial ecosystem in order to support a greener and more sustainable long-term future.

近年趨勢可明顯看到,大眾對ESG日益關注,對ESG相關基金等產品的需求也日增;甚至素來對ESG抱懷疑態度的人,也大致不再提出反對聲音。在ESG範疇當中,綠色金融正面應對氣候風險帶來的即時挑戰,因此特別受到重視。

綠色金融的興起基本上由市場帶動,促使銀行及其他金融機構回應客戶需求,把握商機。同時,監管機構及其他組織在提高業界意識及擴大市場胃納方面,起着關鍵作用。

綠色金融網絡由83家中央銀行及金融監管機構組成,在2017年成立,這是國際監管機構層面的一項重大進展。於香港,香港金融管理局(金管局)和證券及期貨事務監察委員會(證監會)則成立了綠色和可持續金融跨機構督導小組(督導小組),其他成員包括香港交易及結算有限公司(港交所)、強制性公積金計劃管理局(積金局)及保險業監管局,以及多個政府部門。自成立以來,督導小組積極努力協調香港金融業內的相關事務,同時支持和配合國際組織的工作,加強香港的金融生態系統,以建立更環保、更可持續發展的長遠未來。

Establishing a green pathway

The HKMA and the SFC, which both see financial institutions as having a key role to play in the green economy, have issued a wave of draft regulations, white papers and assessment frameworks that have brought focus to the debate around climate and environmental risks in the financial services industry. But these efforts might have struggled to gain traction if there had been no interest from the market. Instead, there has been growing demand for green products. The Chinese government has designated Hong Kong as the country's Green Finance hub.

An important proviso to make here is that, while ESG and Green Finance are now high on the agenda of regulators, this sector is still far from mature. Given this stage of development, the push from regulators (as well as governments and other stakeholders) will continue to be essential in order to sustain momentum. They are committed to knowledge sharing and capacity building among Hong Kong financial institutions so that they can better manage climate risk, as well as working with these institutions to capture business opportunities. The motivation behind this effort is quite clear: climate risk is real, the potential market is huge, and Hong Kong's financial services sector needs to ensure that it is up to speed. The regulators want the banks to be game changers who will transform their clients' behaviour and enable Hong Kong to become truly green. But, for this to happen, many banks will need to build their ESG and Green Financing capacity and expertise. The Cross-Agency Steering Group aims to help with this. It is hoped that the smaller banks will be incentivised to act if they see their larger competitors gaining first-mover advantage.

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建立綠色路徑

金管局和證監會均認為金融機構在綠色經濟中起着重要作用，兩個監管機構發佈了多份監管倡議、白皮書和評核框架，讓金融服務業界聚焦討論氣候與環境風險。可是，要是市場不感興趣，這些努力都難以得到注意；而事實上，市場對綠色產品的需求日增，中央政府更指定香港為國家的綠色金融中心。

必須注意的是，雖然ESG和綠色金融目前是監管機構的工作重點，但綠色金融業的發展仍欠成熟。在這個階段要維持發展勢頭，監管機構（以及政府和其他持份者）的推動力不可或缺。監管機構致力推動香港金融機構分享知識、提升能力，以便更好地管理氣候風險，並與這些機構共同把握商機。這些努力背後的推動力很明顯：氣候風險的威脅實在，市場潛力龐大，而香港的金融服務業界必須與時並進。監管機構希望銀行成為改變遊戲規則的推手，改變客戶的行為，讓香港發展更為綠化。但要做到這點，許多銀行必須提升ESG和綠色金融方面的能力和專業知識。督導小組的目的正是從旁協助，讓規模較小的銀行看到規模較大的競爭者取得先行者優勢後，也會跟隨採取行動。

Transition, adaptation and mitigation

From studies and actual examples of how climate change is impacting different parts of the world, it has become clear that climate risk is an inescapable fact. As industries start to address this new reality, vast numbers of businesses will have to transform themselves or face the consequences. New market entrants will also change the dynamics of established industry sectors.

As businesses in increasing numbers grasp the need for transition, adaptation or mitigation, they will seek to adopt renewable energy and related technologies. There will be an ever-increasing demand for funding from both start-ups and established companies. The subsequent demand for green financing is likely to be huge – Hong Kong institutions need to be ready to capture this opportunity.

The change brought about by climate risk is also being felt in other parts of the financial services industry. Some asset managers and insurers are taking steps to offload non-ESG investments. They report that, compared to just a couple of years ago, more and more of their sell-side and buy-side clients are building up a strong focus on ESG investment strategies. The trend presents substantial business opportunities for the financial institutions that are best placed to respond to these new demands.

過渡、適應與減低風險

從研究和實際例子可見，氣候變化正影響世界各地，氣候風險顯然無可避免。各行各業在應對這個現實時，許多商業機構均意識到轉型的必要，否則便須承擔後果。加上市場出現新競爭者，行業動態也將大大改變。

當越來越多商業機構理解過渡、適應和減低風險的重要時，他們便會尋求採用可再生能源和相關科技；無論是新成立的公司，還是現有的機構，對融資的需求均會不斷增加，綠色融資的需求勢將擴大，香港金融機構應準備就緒，把握機會。

金融服務業的其他範疇，也感受到氣候風險帶來的轉變。一些資產管理人及保險公司正積極減少投資於並非ESG相關的產品。據他們報告，與兩年前相比，越來越多賣方和買方客戶專注訂定ESG投資策略，對於有能力回應這些需求的金融機構來說，這個趨勢將帶來龐大商機。

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無論是新成立的公司，還是現有的機構，對融資的需求均會不斷增加，綠色融資的需求勢將擴大，香港金融機構應準備就緒，把握機會。”



New skills and methodologies

As stated above, Green Finance is far from mature: it hasn't permeated all levels of the financial services industry and there is a need to educate both institutions and clients as to the opportunities and risks. From the regulators' perspective, an important component of this education is to embed climate risk into each bank's overall risk management framework. The reality of climate risk means that a broad swathe of industries will have to adapt their processes or mitigate their exposures in some way. The potential for more frequent and intense physical or transition risks means that the business models of many firms will be hugely affected. This will impact the credit profiles of all banks over the next decade or two. Most financial institutions have yet to develop the capacity to better manage this shift in risks. Regulators and policy makers will have a critical role to play during this transition. Not least, they will need to advise banks on how to reconcile the short-term view (structure of a loan) with the macro long-term picture.

The challenge is that risk management methodologies are still evolving. There is a data gap when it comes to quantifying climate risk, leading to a reliance on more qualitative analysis. It is essential for risk management and business to work hand in hand. With more analysis, risk managers can give more comprehensive information about a project/client's risk profile which incorporates the impact of climate risk. The business can then make a more informed decision on whether to exit or to help the client's project become more aligned with ESG/Green Financing objectives through granting the client a sustainability-linked loan or other green lending products. It is important that banks don't see this as a standalone risk management exercise. Rather, it needs to be a bank-wide project.

Key challenges lie ahead

As part of the maturing process, another challenge that needs to be resolved is the development of meaningful metrics to certify greenness. The European Union (EU) and China have adopted different green taxonomies. The former aims for a comprehensive taxonomy encompassing industries and sub-industries, whereas China favours a principles-based approach. The risk is that, between these two poles, different institutions may develop their own taxonomies. One of the five near-term action points of the Green and Sustainable Finance Cross-Agency Steering Group is to adopt the Common Ground Taxonomy, which is expected to be developed by mid-2021 by the International Platform on Sustainable Finance Working Group on Taxonomies, which is co-led by China and

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新技能、新方法

綠色金融仍未成熟，尚未滲透至金融服務業的所有層面，因此有需要推行教育，讓金融機構和客戶知悉相關機遇與風險。從監管機構的角度來看，這項教育工作的關鍵是把氣候風險融入每家銀行的整體風險管理框架之中。氣候風險影響深遠，不同行業均須在某程度上調整工作流程或減低風險。氣候變化可能帶來更頻密、更重大的實體或過渡風險，意味著許多機構的商業模式將大受影響。在未來十多年二十年，所有銀行的信用狀況也將受影響，但大部分金融機構仍未有足夠能力妥善處理這種風險轉移。在過渡期間，監管機構和政策制訂者將擔任關鍵角色，尤其是引導銀行協調短期措施（貸款結構）和長期的宏觀趨勢。

目前的挑戰在於風險管理方法仍在不斷演變。在量化氣候風險方面，數據缺口導致須比較倚靠定性分析。風險管理與業務營運必須並肩而行；有了更多分析，風險管理人便可同時將氣候風險納入考量，針對某項目／客戶的風險狀況的提供更詳盡的資料，從而讓機構有據可依，明智判斷應否退出客戶的項目，或向客戶批出與可持續發展掛鈎的貸款或其他綠色融資產品，幫助客戶的項目達致ESG／綠色金融目標。銀行不應視之為由個別部門單獨處理的風險管理工作，而是銀行上下共同投入的項目。



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監管機構希望銀行成為改變遊戲規則的推手，改變客戶的行為，讓香港發展更為綠化。”

主要挑戰

在綠色金融邁向成熟的過程中，另一項必須應對的挑戰，是開發有意義的指標以認證綠色化。歐盟和中國各自採用不同的綠色分類法：歐盟期望制定全面的分類法，涵蓋行業及子行業；中國則傾向採用以原則為本的方法。問題是，在這兩極之間，不同機構仍有可能會開發自己的分類法。督導小組的五個短期行動綱領之一是採納「共通綠色分類目錄」，該目錄由中國及歐盟所領導的綠色分類目錄工作小組計劃於2021年年中前制訂。這項標準化工作十分重要，因為業界需要清晰的標準，才能開發更多種類的綠色產品。明確界定綠色項目須符合的條件，並配合多元化的綠色金融選擇，將有助業界發展。

監管機構與業界攜手合作

綠色金融正面對上述多重挑戰，例如欠缺標準化的綠色分類法、數據缺口、量化氣候風險的方法尚未成熟，以及欠缺人才和技能。話雖如此，香港監管機構和政府均十分堅定致力扶持這個新興界別。

各行各業在應對氣候風險時所帶來的轉變，將會是龐大的機遇，對沒有採取行動的機構來說則是個威脅。大灣區和南向港股通可幫助內地公司在香港為綠色項目融資，因此，香港將有機會發展成為重要的綠色金融中心。BT

the EU. Such standardisation is essential: the industry needs this clarity before there can be a greater diversity of green products. Greater clarity about what qualifies as a green project – combined with a more sophisticated range of Green Finance options – will help the sector to develop.

Regulators and industry need to work together

Green Finance faces a range of challenges, such as the lack of a standardised green taxonomy; data gaps and unproven methodologies for quantifying climate risks; and a scarcity of talent and capacity. At the same time, the regulators and the Government are committed to supporting this nascent sector in Hong Kong.

The changes that are on their way as industries respond to climate risk represent an enormous opportunity, as well as a threat for institutions that do not act. The Greater Bay Area (GBA) and Southbound Connect will facilitate fundraising for green projects by Mainland Chinese firms in Hong Kong. As a result, the city has the opportunity to become a significant Green Finance centre. BT

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