

# Towards a Greener Financial System

In 2020, the Bank continued to advance its climate strategies and initiatives to support an orderly transition to a greener economy.<sup>1</sup>

## Introduction

Climate change has wide ranging and significant implications on our physical world, the economy and the financial system.<sup>2</sup> For the Bank, preparing our financial system to become more climate-resilient is not only consistent with, but integral to achieving our goals of preserving monetary and financial stability. This calls for appropriate regulation and supervision to ensure that financial institutions are adequately measuring, mitigating and protected against climate risks. This will enable them to play a catalytic role in supporting the transition to a low-carbon economy. Internally, we are making changes to the Bank's operations to be consistent with sustainable practices. For the first time, as part of our annual reporting, we will be disclosing our governance and strategy for climate risk management, in line with the recommendations by the Task Force on Climate-related Financial Disclosures (TCFD).

## Whole-of-bank approach

Within the Bank, there is clear responsibility and accountability of senior management roles. The Bank embraces a whole-of-bank approach to managing climate risks under the oversight of the

Management Committee, led by the Governor. A Deputy Governor leads the work on developing the Bank's climate strategies and oversees their implementation. The Deputy Governor is supported by a Lead Coordinator who is tasked to link-up and coordinate Bank-wide climate initiatives, as well as provide regular reports to the Management Committee of the Bank on the overall progress. Senior management in turn, periodically reports on climate risk developments and initiatives to the Board as part of the Bank's regular financial stability, reserve management and organisational risk reviews.

Consideration to climate sustainability is embedded within the various functions in the Bank. The implementation of the Bank's climate risk strategies is supported by seven internal cross-functional workstreams (Diagram 1). An internal climate strategy team supports alignment, information flows, external engagements and responses to cross-cutting issues across the workstreams and provides support to the Lead Coordinator.

## Identifying clear priorities

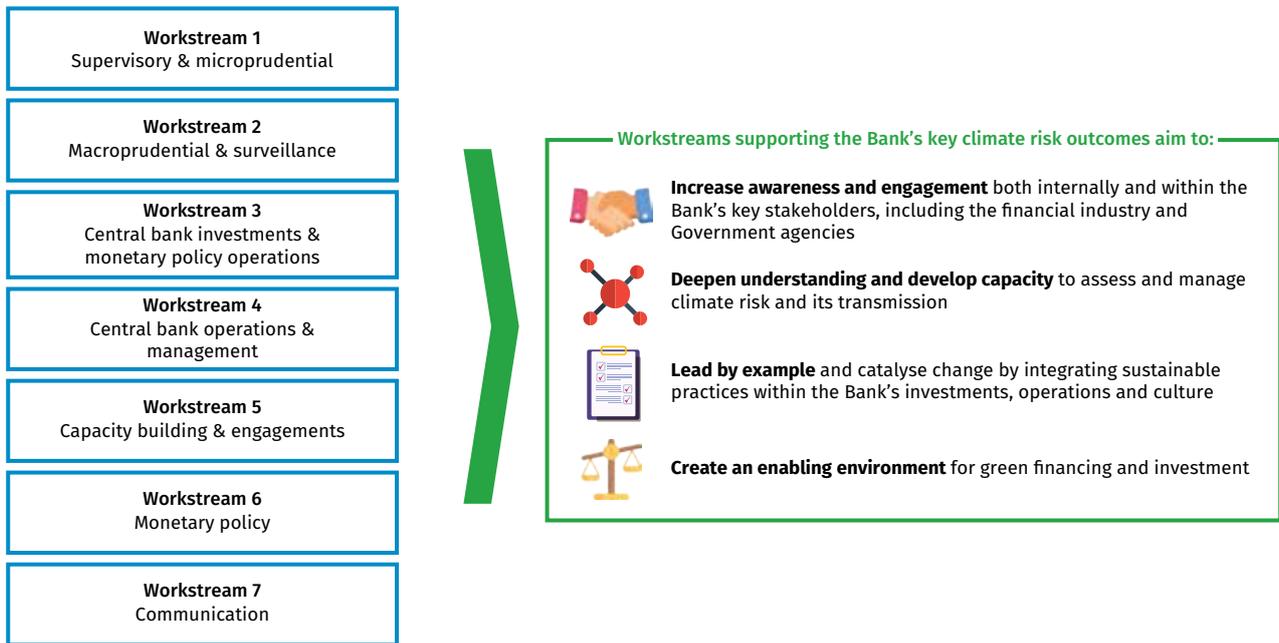
Five key thrusts underpin the Bank's priorities for managing climate risks and supporting an orderly transition to a greener financial system (Diagram 2). Significant focus is given to putting in place the necessary building blocks for financial institutions to strengthen climate risk management practices, while supporting transitioning efforts by economic agents. Within the next three years, we aim to fully integrate climate-related risk considerations in our supervisory assessments, and achieve material progress in appropriately reflecting climate risk in our prudential framework and macroeconomic and financial stability assessments.

Throughout 2020, we continued our close engagements with the financial industry on two areas. Firstly, progress by financial institutions in

<sup>1</sup> Responding to climate risk remains a priority to the Bank, given its direct relevance to the Bank's mandates to preserve monetary and financial stability - Feature Article on "Climate Change Risks and Opportunities: Respond, Not React" in the Bank's Annual Report 2019. [https://www.bnm.gov.my/documents/20124/2724769/ar2019\\_en\\_box1.pdf](https://www.bnm.gov.my/documents/20124/2724769/ar2019_en_box1.pdf)

<sup>2</sup> About 11.7% of the assets held by Malaysian financial players are in sectors that are potentially exposed to climate change - Feature Article on "Climate Change Risks and Opportunities: Respond, Not React" in the Bank's Annual Report 2019. [https://www.bnm.gov.my/documents/20124/2724769/ar2019\\_en\\_box1.pdf](https://www.bnm.gov.my/documents/20124/2724769/ar2019_en_box1.pdf)

Diagram 1: Workstreams in the Bank to manage climate risk



embedding climate risk considerations within their business and risk strategies. The financial industry is increasingly incorporating climate risk management considerations into their operations and decision making, although progress remains uneven across institutions due in part to gaps in knowledge, data

and competent resources. Secondly, on opportunities to expand and mainstream financial products and services that support low carbon and climate resilient activities and investments. This is especially important to achieve a sustainable economic recovery in the post pandemic era.

Diagram 2: Key thrusts of the Bank's climate strategy

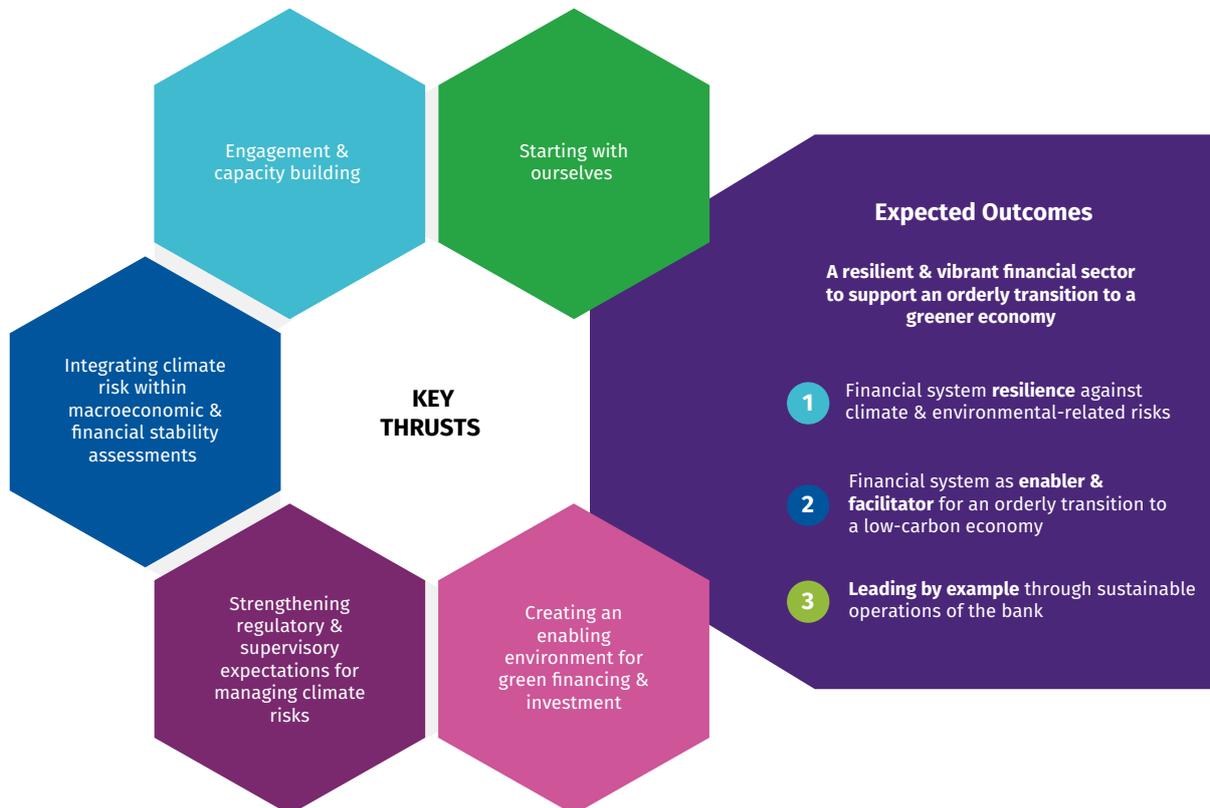


Table 1: Progress and outcomes of initiatives under the five key thrusts for 2020

KEY THRUSTS	OUTCOMES	PROGRESS
<b>Starting with ourselves</b>	Factoring sustainability in investment	Sustainability factors are integrated in the Bank's reserves management practices, through the inclusion of Environmental, Social and Governance (ESG) and Socially Responsible Investing (SRI) criteria in our investment processes
	Reduction in carbon footprint in the Bank's operations	Implemented efficient energy management and monitoring programme to establish electricity consumption profile and to develop framework and initiatives towards energy efficiency
		Fully implemented the use of environmental friendly packaging at the Bank's food and beverage outlets, and intensified actions to minimise single-use plastics in these outlets and during events. Overall, use of plastic has been reduced by about 60% in 2020
		Promoted longer-lifespan banknotes that lead to lower disposal volume over time, by leveraging (i) more durable substrates e.g. polymer banknotes which represented 43.7% of the total CIC* volume; (ii) recirculation of fit banknotes that accounted for 73.3% of the annual banknotes issuance in 2020; and (iii) intensified public awareness on the proper handling of banknotes to extend their usage over a longer time period
	Accelerated migration to e-payments. Total number of e-payment transactions continued recording a double-digit growth of 14% to 5.5 billion transactions in 2020. On average, a person in Malaysia made 170 e-payment transactions each in 2020 (from 150 transactions in 2019)**	
	Intensified online learning offerings by Museum and Art Gallery through virtual guided tours, virtual 360° exhibitions and online educational activities	
<b>Engagement &amp; capacity building</b>	Clarity on national policies and greater policy alignment	Organised dialogues and roundtables with relevant ministries and agencies to gain greater clarity on national policies, and promote alignment between the Government and financial sector responses to climate risk
	Closer collaboration with the Government	Participated in Government climate-related outreach events and webinars organised by the Ministry of Environment and Water, and Malaysian Green Technology and Climate Change Centre
	Deeper awareness and knowledge on climate risk among Bank staff and the financial industry	Conducted a series of capacity building programmes to build awareness and enhance technical understanding and capability on climate risk for the Bank's staff and industry players, through collaboration with external stakeholders such as the ASEAN Low Carbon Energy Programme, Climate Governance Malaysia and Islamic Banking and Finance Institute Malaysia (IBFIM)  Embedded module on climate change in induction programme for the Bank's new hires in the supervision and regulation departments. More than 30 learning opportunities for staff through the Bank's Learn from Anywhere platform
<b>Integrating climate risk within macroeconomic &amp; financial stability assessments</b>	Greater understanding of climate risk transmission channels	Mapped transmission channels for climate-related risks (physical and transition) to understand the potential impact on the Malaysian economy (sectors and agents). This also supports the development of expanded sensitivity analysis and stress scenarios capturing climate risk pathways for the financial system (by end-2021)
	Enhanced macroeconomic surveillance and forecasting	On-going research focusing on enhancing our surveillance and forecasting to allow for better incorporation of impact of climate risk on macroeconomic variables
<b>Strengthening regulatory &amp; supervisory expectations for managing climate risks</b>	Strengthened resilience to climate risk in the financial sector	Reviewed the Climate Change and Principle-based Taxonomy Discussion Paper (key features in Diagram 3) following feedback from the public consultation process (expected issuance of final document in early 2021)
		On-going supervisory engagements with financial institutions on actions taken to improve climate risk management practices following the Bank's communication of supervisory expectations on the issue  Conducted benchmarking on best practices on climate-related risk management practices (to be captured in proposed guidance to be issued in 2021)
<b>Creating an enabling environment for green financing &amp; investment</b>	Greater financial sector visibility in national sustainability policies	Advocated sustainability and green considerations in national policies from financial sector perspectives through a series of roundtable and bilateral engagements with relevant Ministries and the Economic Action Council
	Implementation of impact-based assessment for assessing financing and investment proposals	Collaborated with financial industry to issue VBIAF*** Sectoral Guides on Palm Oil, Renewable Energy and Energy Efficiency in August. Work on developing Sectoral Guides on Manufacturing, Construction and Infrastructure as well as Oil and Gas is in progress (to finalise by end-2021)

\* Currency in circulation

\*\* More trends in Chapter 1.5 on Promoting Safe and Efficient Payment and Remittance Systems

\*\*\* Value-based Intermediation Financing and Investment Impact Assessment Framework. The VBIAF Sectoral Guides are part of a sectoral and activity impact-based risk management toolkit (further details in Chapter 1.4 on Promoting a Progressive and Inclusive Islamic Financial System)

Diagram 3: Key features of the Climate Change and Principle-based Taxonomy



## Partnering with other regulators and financial institutions

A key platform for regulator-industry cooperation on climate resilience is the Joint Committee on Climate Change (JC3). Through this platform, the Bank and Securities Commission Malaysia work closely with the financial industry to drive and support efforts in the financial sector in managing climate-related risks and facilitating businesses to transition towards sustainable practices.

In 2020, the JC3 supported the delivery of the following plans to advance climate risk practices in the financial sector:

- Pilot implementation and enhancements to the Climate Change and Principle-based Taxonomy developed for financial institutions. Going forward, the implementation of the taxonomy by financial institutions will inform the development of reference practice documents on climate risk management and scenario analysis.
- Survey of climate-related disclosure practices of financial institutions in Malaysia against recommendations of the TCFD. Observations from the survey will serve as input to an Application Guide on Climate-Related Disclosures which is being developed to facilitate the voluntary adoption of the TCFD recommendations and improve the quality of disclosures.
- Identification of market gaps and measures to enhance the demand and supply of green finance. The possible measures include exploring alternative funding instruments and reducing barriers to innovative solutions.
- Development and organisation of several foundational and outreach programmes, in partnership with selected knowledge partners, as part of the JC3's holistic approach in building the industry's capacity and raising awareness of relevant stakeholders on climate change, its impact and need for climate actions.
- Advocacy of national policies to facilitate and accelerate the financial sector's response to climate risks through various engagements with relevant ministries and agencies. This included periodic engagements with the Ministry of Environment and Water as a platform for close engagements between the JC3 members and the Government.
- Establishment of a Data Workstream initiative to bridge the prevailing gaps in climate and environmental risks-related information which is

critical for climate risk management, disclosure and scenario analysis. The JC3 has since endorsed a preliminary workplan to take this effort forward in the coming year.

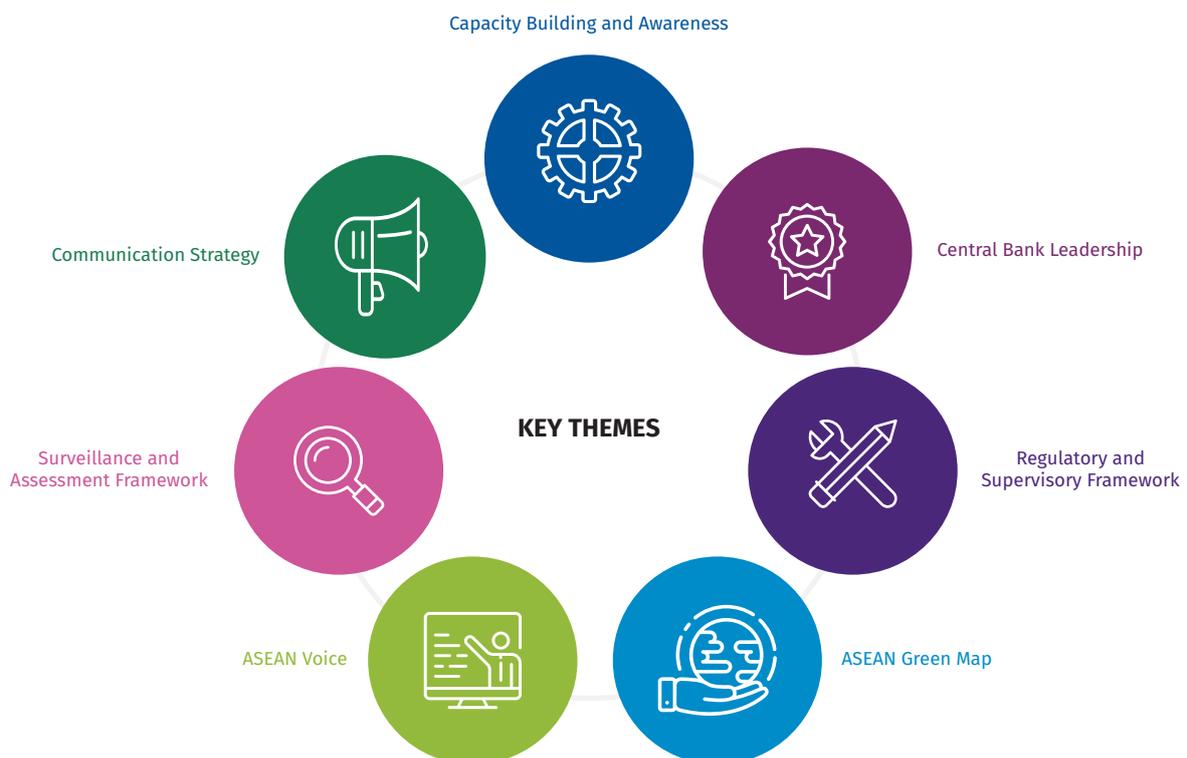
## Contributing to regional and international thought leadership

The Bank is active at both the regional and international levels on climate-related issues affecting the Bank’s mandates. Within ASEAN, the Bank led the Task Force on the Roles of ASEAN Central Banks in Managing Climate and Environment-related Risks. The aim was to better understand how ASEAN central banks view the implications of climate and environment-related risks for both financial and monetary stability, as well as their roles and limitations in addressing these risks. A report was published in November 2020, putting forth a set of non-binding recommendations for ASEAN central banks, following approval by ASEAN Governors in October 2020 (Diagram 4). The non-binding recommendations focus on the banking sector and

at the same time highlight the importance of cross-sectoral and multi-stakeholder collaboration. Key priorities include developing a regional taxonomy, enhancing technical capacity, developing an ASEAN Green Map and considering establishment of an ASEAN data collection framework.

Beyond the region, the Bank became a new member of the Steering Committee of the Central Banks and Supervisors Network for Greening the Financial System (NGFS), reflecting its commitment and active involvement in the mission and initiatives of the NGFS. The NGFS is an important platform for policymakers to come together, share best practices and contribute to the development of climate risk management in the financial sector. The network continues to make significant strides in providing intellectual leadership through its research projects, and developing a strong suite of practical resources for supervisors and policymakers to aid efforts to mainstream green financial services. The increasing diversity in its membership is welcomed to encourage an inclusive process in responding to what is ultimately a global challenge.

**Diagram 4 : Key themes of the non-binding recommendations from the “Report on the Roles of ASEAN Central Banks in Managing Climate and Environment-related Risks”**





Group photo of ASEAN Task Force members

## Increasing awareness through communication

During the year, the Bank stepped up its initiatives to enhance awareness on climate risk and its impact on financial stability. These included efforts to share the Bank's climate initiatives and perspectives on the need for financial sector to manage climate and environment-related risks. Our senior management members and officers participated as speakers in various domestic and international climate change-related forums and webinars. These included the Financing Climate Action Conference 2020 organised by the Malaysian Green Technology and Climate Change Centre; the Climate Change Webinar organised by the Ministry of Environment and Water;

the Working Meeting on Climate Finance that was chaired by the French President Emmanuel Macron to commemorate the fifth year anniversary of the Paris Agreement; the Economist Climate Risk Asia Week; and the Launch of the World Bank Sustainable and Inclusive Finance Forum.

Through these engagements, the Bank continued to advocate and support collective actions to address the climate challenge. In particular, key focus areas of the Bank's external engagements include collective actions in support of efforts to improve climate-related financial disclosures and strengthen climate risk analysis and management in the financial sector. As an ASEAN economy, we also benefitted from continued close cooperation with central banks in the region. The sharing of valuable

Governor Nor Shamsiah Yunus as a speaker in a Working Meeting on Climate Finance: Towards Carbon Neutrality 2050 chaired by French President Emmanuel Macron





*Governor Nor Shamsiah Yunus as a speaker in Climate Risk Asia Week 2020, organised by The Economist*

perspectives, insights and experiences in addressing common climate and environmental issues faced by economies in the region serve as important inputs to inform the policies and strategies pursued by the Bank to secure an orderly transition to a greener economy. Such cooperation is also being extended to leverage the regional operations of financial institutions in ASEAN to accelerate and scale up climate risk management and green financing initiatives.

## Going forward

Looking ahead, we aim to further empower the financial sector to drive the sustainable finance

agenda as we continue to strive for a conducive and coherent ecosystem towards a low-carbon economy. Advancing the readiness of the financial industry on climate risk management and disclosure remains a priority. In the coming year, our focus will be on creating strong familiarity and traction for the industry-wide adoption of the Climate Change and Principle-based Taxonomy and the VBIAF. This will facilitate better understanding and measurement of climate and environmental impact from economic activities. In addition, a risk management and scenario analysis reference guide is being developed for consultation with financial institutions later this year. These will support concurrent initiatives to promote the wider adoption of climate-related

**Climate Bonds Connected**  
Webinar Programme

**Central Banks, Climate Change and Stress Testing**  
Thursday 23 July 16:30 Kuala Lumpur / 10:30 Paris / 09:30 London

**Sarah Breeden**  
Executive Director,  
UK Prudential  
Regulatory Authority

**Jessica Chew**  
Deputy Governor,  
Bank Negara Malaysia

**Prashant Vaze**  
Head of Policy &  
Government, Climate  
Bonds Initiative

**Sean Kidney**  
CEO, Climate Bonds  
Initiative

*Deputy Governor Jessica Chew Cheng Lian as a panellist in a webinar organised by Climate Bonds Initiative*



*Assistant Governor Fraziali Ismail delivered the Closing Remarks at the Climate Governance Malaysia Showcase during Climate Week New York 2020*

disclosure by financial institutions in line with the TCFD recommendations.

Another priority is to widen green finance instruments and address market gaps in sustainable finance, particularly for products and solutions that cater to business disruptions from frequent climate disasters faced by the country such as floods. Alongside these efforts, we will work with the industry through the JC3 to further expand the availability of structured

technical programmes to build capacity in climate risk management within the financial sector.

We will also continue to engage relevant Government ministries and agencies to align financial sector priorities with nationally determined contribution and commitments to a greener economy. This will include providing inputs to the Government on the role of the financial sector in the fight against climate change and environmental degradation.