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Sustainable Finance

Embracing ESG in the Financial Services Industry

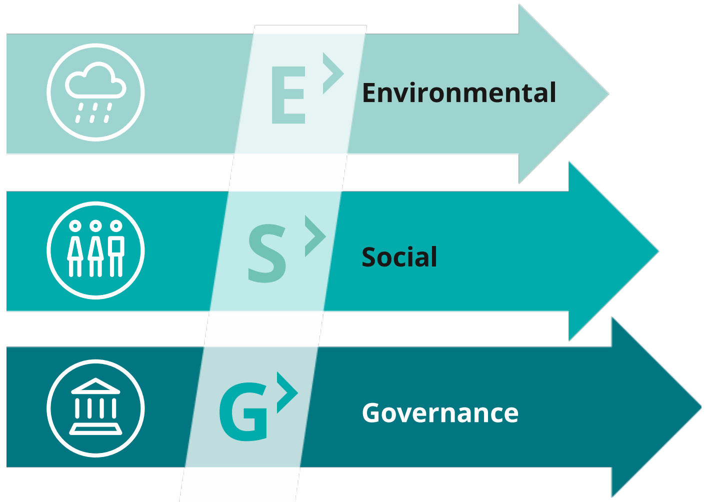
How can Singapore position itself as Asia's leading sustainable finance hub?

The growing recognition of the impact of environmental, social, and governance (ESG) on lending and investment decisions presents the opportunity for Singapore to enhance its position as a global financial hub. However, the slow rate of adoption of sustainable finance practices threatens Singapore's status as a leading financial centre. To secure its position as the region's leading hub, Singapore needs to crystalise the ESG ecosystem by building strategic alliances between corporations, banks, investors, regulators, rating agencies, and civil society.

Banks and investors look to ESG

Discussions of ESG matters have intensified in recent years as banks, investors, regulatory bodies, businesses, NGOs, and governments become more attuned to evaluating investments and corporate performance through the lens of ESG impact. There is a rapidly growing recognition that value extends beyond pure financial returns. By tying finance to sustainable business models – i.e. those that avoid contributing to climate change, pollution, environmental degradation, and human rights and labour abuses – banks and investors can reduce the negative ESG exposure of their lending and investment portfolios, and encourage more responsible business practices. Growing awareness of ESG is particularly important for regional investors as Asia's exposure to climate change will increasingly become a factor taken into account when evaluating the competitiveness of its investments. The region's vulnerability to the effects of climate change will also increase broader social impacts from migration to increased urbanisation and supply chain disruption.

Figure 1: ESG is becoming the common language of sustainable finance



- Climate change
- Carbon emissions
- Water stress
- Renewable energy
- Natural capital

- Human capital
- Labour standards
- Human rights
- Privacy and data security
- Community engagement

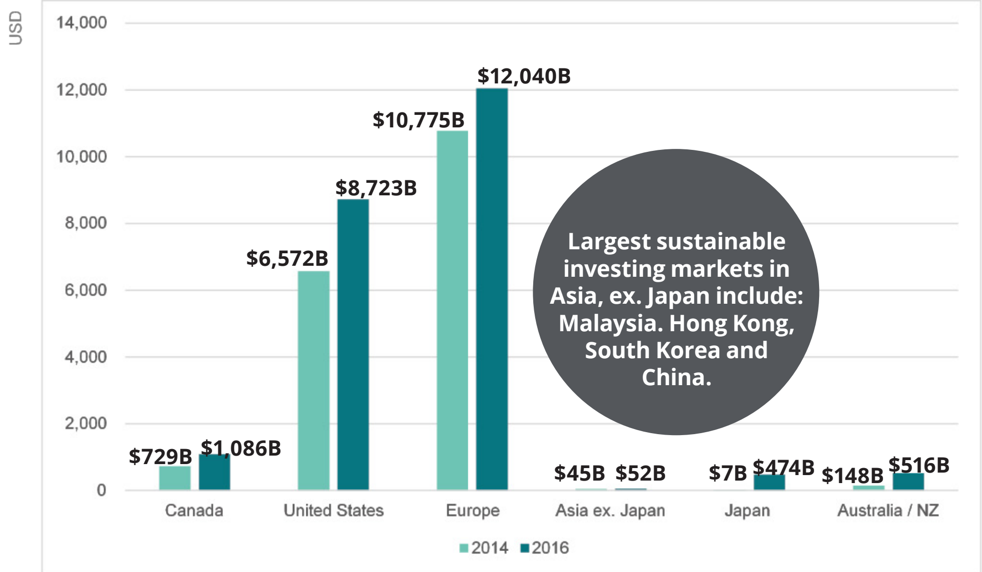
- Corruption and bribery
- Business ethics
- Board pay
- Board diversity
- Ownership

Singapore is lagging behind global peers

Globally, sustainable finance is going mainstream, but Asia is being left behind. The value of investment assets committed to the Principles for Responsible Investment (PRI) is now over US$70 trillion, supported by more than 2,000 signatories;[i] however, the take-up rate has been slow in Asia, with the exception of Japan. An estimated US$23 trillion in assets are professionally managed under responsible investments strategies, accounting for about 26% of all professionally managed assets globally.

The rapid acceleration of sustainable finance presents high-stakes for global financial hubs such as Singapore, and the country's banks and investors, who cannot afford to get left behind. Singapore continues to lag far behind other financial hubs such as Frankfurt, London, Milan, New York, Paris, Tokyo, and Toronto.[ii] Failure to assert itself as a regional leader in sustainable finance increases the risk that Singapore is overlooked for market opportunities.

Figure 2: Asia is trailing Europe, and North America in ESG investing[iii]



Ready to embrace ESG

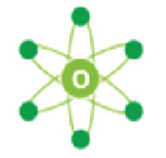
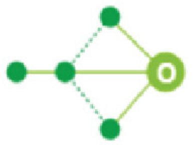
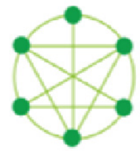
Singapore, nevertheless, is well placed to position itself as a regional leader on sustainable finance. It has the right mix of an innovative mindset and an enabling regulatory landscape. The Singapore Exchange (SGX) has made it mandatory for all listed companies to report their ESG practices, and the Monetary Authority of Singapore (MAS) is taking significant strides in advancing the agenda for sustainable finance. For instance, over $2 billion of green bonds have been issued following the introduction of a MAS Green Bond Grand Scheme. Singapore also benefits from world-leading educational institutions and a diverse ecosystem of market participants advancing sustainable finance research, benchmarks, and analysis.

Despite numerous forums and a plethora of activity, development is disconnected. This fragmented development creates duplication and confusion among the banks, investors, regulatory bodies, educational institutions, and NGOs working to advance sustainable finance in Singapore. To crystalise its vision, Singapore should seek to formalise and coordinate these strategic alliances to work collaboratively and competitively to accelerate the country's position as Asia's leading sustainable finance hub.

A call to action: Collaboration results in acceleration

There are multiple ways in which a strategic alliance can come together with varying degrees of centralisation and types of interaction. There are four main archetypes for strategic alliances in the ESG ecosystem:

Figure 3: Strategic alliances to build the ESG ecosystem

Centralised	Sequenced	Facilitated	Self-organised
			
• Clear orchestrator who drives the interactions required to achieve the objective • Participants generally only interact with the organiser	• Traditional supply chain or distribution system with a high-level orchestrator • Participants interact with upstream or downstream players	• Primarily participant-driven with mutiple complex interaction patterns • Orchestrator defines governance and interaction protocols only	• Pureply participant-driven • No orchestrator and typically includes grassroots systems with no defined standards

Given the commitment of Singapore's regulators, a facilitated model seems best to drive the creation of a sustainable finance hub, bringing participants' unique outlook, objectives, and aspirations to the table. This model would enable effective dialogue between investors, banks and corporations, and support effective and consistent messaging on ESG-related topics. The financial community has an ever-growing voice on ESG, but corporations continue to express a lack of clarity from investors. A facilitated approach would enable regulators to moderate the dialogue, while also welcoming critical perspectives from civil society.

Deloitte regularly consults across the ESG ecosystem, providing trusted advice and assurance to investors, banks, standard setters, framework developers, market data providers, and civil society. Our team is committed to facilitating connections and accelerating collaboration across the ESG ecosystem to truly **make an impact that matters**. Please do not hesitate to get in touch to be part of the conversation.

[i] Principles for Responsible Investment, 2019, About the PRI. Available at: https://www.unpri.org/pri/about-the-pri
[ii] United Nations Environment Programme, 2017, Financial Centres for Sustainability: Reviewing the G7 Financial Centres in Mobilizing Green and Sustainable Finance. Available at: http://unepinquiry.org/wp-content/uploads/2017/06/Financial_Centres_for_Sustainability.pdf
[iii] Global Sustainable Investment Alliance (GSIA), 2017, Global Sustainable Investment Review 2016. Available at:http://www.gsi-alliance.org/wp-content/uploads/2017/03/GSIR_Review2016.F.pdf