

CIMB spearheads shift towards responsible banking

CIMB CHAMPIONS PRINCIPLES OF RESPONSIBLE BANKING AS PART OF THE BANKING GROUP'S SUSTAINABILITY AGENDA

“Doing things right and doing all the right things” is a philosophy that Tengku Dato' Sri Zafrul Aziz subscribes to when it comes to championing the principles of responsible banking. The group CEO and executive director of CIMB Group Holdings Bhd believes that now is the time for the bank to lead the way in creating long-term sustainable value across all levels of its operations. This is especially pertinent now, considering the wide range of climate change issues that are pervasive in the region.

“We need to face some bitter truths. According to the Global Climate Risk Index, four of the world's 10 countries that will be most affected by climate change are located in Asean. These countries are Myanmar, the Philippines, Thailand and Vietnam. Asean's numerous archipelagos, long coastlines and intricate borders are susceptible to the impact of climate change, which are likely to affect interstate relations and threaten security in the region. This could, in turn, impact communities and economies.”

As a regional banking group in Asean, Zafrul says CIMB is uniquely placed to positively influence the behaviour of its stakeholders, be it employees, customers, business partners or shareholders, in order to “turn the tide” and create a win-win sustainable growth path.

The bank has already taken its first steps. In August, CIMB became

a member of the United Nations Environment Programme - Finance Initiative (UNEP-FI). It is the only UNEP-FI member bank in Malaysia and Asean that is also part of the core group of banks globally tasked to develop the UNEP-FI Principles for Responsible Banking. Under this initiative, CIMB will help develop global banking principles that will direct efforts to align with society's goals as expressed in national and regional frameworks, the sustainable development goals (SDGs) and the Paris Agreement.

Zafrul says this collaborative effort with 27 leading global banks (also signatories to UNEP-FI) is a unique opportunity to redefine banking as a force for positive change by promoting the triple bottom line of people, planet and profit.

“Becoming a member of UNEP-FI aligns with CIMB's own current initiative to embed sustainability into all aspects of our operations across the group, which will be a key focus in our next mid-term growth plan. We also hope to have other banks in Malaysia and Asean join us on this sustainability journey. The social, environmental and economic costs of not taking a proactive approach on sustainability is too high for our descendants and planet to bear.”

Other objectives of the UNEP-FI are for member banks to set the global benchmark for sustainable banking, and require signatory banks to set goals for and report on their contribution to national and international social, environmental and economic targets. In addition, these banks will ensure accountability

“BECOMING A MEMBER OF UNEP-FI ALIGNS WITH CIMB'S OWN CURRENT INITIATIVE TO EMBED SUSTAINABILITY INTO ALL ASPECTS OF OUR OPERATIONS ACROSS THE GROUP, WHICH WILL BE A KEY FOCUS IN OUR NEXT MID-TERM GROWTH PLAN” > ZAFRUL

and transparency on their impacts as well as challenge the banking industry to play a leading role in creating a more sustainable future.

In this Q&A, Zafrul delves into the bank's efforts in supporting its commitment towards responsible banking, and why sustainability will be a key focus area in the bank's next mid-term growth plan.

As a member bank of the UNEP-FI, what transformational changes can customers (corporate and individual) look forward to when it comes to CIMB's products and services?

Last year, we made a commitment to be a sustainable organisation. We aim to



CIMB has always emphasised value creation which requires a delicate balancing of the long-term interests of its people, planet and profitability. Zafrul strongly feels that banks could be a powerful force for change, to create a huge positive impact not just economically, but also socially and environmentally.

integrate environmental, economic and social (EES) considerations into our risk assessment and management strategies by 2020 to ensure our business journey will have a net positive impact on all our existing and future stakeholders over the long term.

Although that commitment was officially made only in 2017, we have been practising this concept of sustainability for many years. In essence, numerous initiatives were already targeted at achieving various UN Sustainable Development Goals, although they may not have been labelled as such.

In the immediate term, it is not so much about transformational products and ser-

vices. Rather, by embedding sustainability aspects into the CIMB Group's DNA, we would like to convince as many stakeholders as possible to embrace sustainability as wholeheartedly as we do.

More businesses today are adopting the responsible model than ever before, so much so that the responsible and sustainable business space has generated new “sweet spots” for the economy. At the same time, more consumers are becoming conscious about championing brands that promote sustainable practices. Therefore, financial institutions that want to remain relevant must know how to

capitalise on these new economic sweet spots. What role can financial institutions play in helping to grow EES-related industries?

In many Asean countries, we have seen an increasing top-down push by policy makers to encourage the development of responsible and sustainable businesses. Malaysia itself is not short of incentives. One recent example is in Budget 2019's RM2-billion Green Technology Financing Scheme, RM1 billion Sustainable Development Financing Fund and the expanded Green Technology Investment Allowance.

All these aside, there has to be a tipping point to spark the “sustainability

revolution”, where all stakeholders of the economy have a change in mindsets and start to move in the same direction to achieve a common goal.

The financial sector — given its resources, network and role in supporting economies — is primed to assume leadership in this space, to create more opportunities and sweet spots for all stakeholders by supporting and enabling industries that embrace concepts like EES, socially responsible investing (SRI) and value-based intermediation (VBI). When that critical mass is achieved, financial institutions will naturally benefit from the creation of more sustainable value at all levels of the economic value chain.

There are two ways banks can play a role in this space is to use their lending policies to help responsible businesses grow as well as to help reduce the negative effect of certain sectors that have unsustainable business practices. What initiatives has/will CIMB introduce in this space?

CIMB will engage openly with its stakeholders on proactively managing sustainability risk and identifying opportunities for growth. We are currently developing a policy and guidelines to guide future financing, investment and procurement decisions, to address various risks associated with climate change. This involves active engagement with staff and clients to raise awareness on how sustainable financing could contribute to a greener world. Additionally, what ranks equally highly on our EES agenda is financing businesses in industries such as renewable energy and waste management, and looking to partner with leading non-profit organisations that promote EES initiatives.

Apart from green bonds and sukuk, there are a few products and services associated with re-

sponsible business lending among financial institutions such as ethical lending. In your opinion, why has the development been slow?

The tipping point mentioned earlier is important. Thus far, green bonds and sukuk in Malaysia have grown thanks partly to regulatory incentives and policy push. In addition, assets under management (AUM) in portfolios that use various approaches to sustainable investing have grown to an estimated US\$23 trillion globally, an increase of more than 600% over the past decade. This represents a compound annual growth rate (CAGR) of 23% per annum. So, it is only a matter of time before increased demand for EES projects translates into further development of EES-based financial products.

In fact, early this year, CIMB had successfully jointly lead-arranged the world's largest US\$1.25 billion sovereign green sukuk for the Indonesian government.

As demographics change and more become aware of responsible and ethical business practices, do you



Tengku Dato' Sri Zafrul Aziz, Group CEO, CIMB Group (fifth from right); Dato' Hamidah Naziadin, Group Chief People Officer, CIMB Group (far right) and Shahnaz Jammal, Group Chief Financial Officer, CIMB Group (far left) with the recipients of the third edition of the CIMB ASEAN Scholarship that aims to not only equip the scholars academically but also instill the right mindset for them to become well-rounded and cognizant on the importance of sustainability.

“PROFIT IS A NECESSARY COMPONENT OF SUSTAINABLE BUSINESS, AND RESPONSIBLE BANKING IS ALL ABOUT HOW WE PURSUE THAT PROFIT.” > ZAFRUL

think it is time for Malaysian banks to step up its game? How can banks be part of a more sustainable investment and lending future?

Many banks already have existing policies and practices based on the sustainability concept. Together in a concerted effort, banks could be a powerful force for change. They could start by joining the UNEP-FI and through that, organise



Dato' Hamidah Naziadin, Group Chief People Officer, CIMB Group (standing centre) sharing CIMB's sustainability agenda with management trainees under CIMB's 2018 The Complete Banker and Fusion programmes. This year, the 26 management trainees from Malaysia, Singapore and Indonesia began their induction programme with an activity themed "Sustainability Starts with Us" in Taman Tugu in Kuala Lumpur by planting trees and creating a new walking trail in the urban forest.

existing and direct future efforts based on global best practices. They could also consider endorsing the UNEP-FI Principles of Responsible Banking draft once it is launched for global consultation in November 2018.

In Malaysia, we laud Bank Negara Malaysia's (BNM) VBI push via the Islamic banking industry to deliver the intended outcomes of Shariah through practices and offerings that generate positive and sustainable impact to the economy, community and environment, consistent with shareholders' expectations of sustainable returns. We are proud that CIMB Islamic is a strong proponent of VBI and a founding member of the community of practitioners of BNM's VBI initiative.

At the moment, do banks assess possible environmental, economic and social (EES) risks when it comes to evaluating a potential business borrower? If so, how? Kindly elaborate.

Lending, financing and funding is cur-

rently a function of the likelihood of repayment and investment returns. In recognising the fact that the interests of stakeholders like communities and the environment could also be impacted by the lending risk-returns paradigm, concepts like EES, VBI and SRI have advocated the need to integrate non-financial risk factors into the decision making process.

Similarly, the concept of responsible banking under UNEP-FI is all about expanding and refining risk metrics to include, for example, environmental and social impact as risk factors in lending and funding decisions. Banks can consciously direct funding towards sectors that contribute towards more positive and sustainable environmental, social, and economic impact, as well as incentivise and influence clients, suppliers and businesses to embark on the sustainability journey.

There is a common notion is that

responsible lending to businesses often comes at the expense of margins and profits.

How can banks mitigate this and make it a viable business proposition if they want to enter this space? In Malaysia, which areas can a bank start with? How do you ensure that margins are not compromised?

Profit is a necessary component of sustainable business, and responsible banking is all about *how* we pursue that profit. Our business success is driven by our inclusive growth strategies and shared values, which ensure our critical stakeholders are offered the right financial solutions and are motivated to make positive contributions. This will result in a more resilient economy and a better society.

Contrary to the perception that the pursuit for profit is incompatible with sustainability, numerous global companies have proven that by consciously embedding sustainability into their operations, they have delivered better shareholder and stakeholder returns. In short, both can be achieved based on the right business model.

On our sustainability journey, CIMB will work in partnership with our stakeholders — regulators, employees, investors, suppliers, partners and customers — to evaluate associated economic, environmental and social risks, to formulate a long term sustainability strategy.

As a start, we will identify priority areas and focus on what is most material to us and our stakeholders. We will then set targets for these priority areas — using a national framework, like BNM's VBI — that translate international aspirations, like the UN's Sustainable Development Goals, into localised targets, priorities and action plans. We believe that if we do all these things right, and do all the right things, then long-term sustainable value creation for our shareholders will naturally follow.

Sparking the Sustainability Revolution

HOW CIMB ISLAMIC IS LEADING THE TRANSFORMATION OF SHARIAH BANKING & FINANCE

Rafe Haneef, the CEO of CIMB Islamic Bank Bhd (CIMB Islamic) and CEO of Group Islamic Banking, CIMB Group, admits that he was ecstatic when Bank Negara Malaysia (BNM) first contacted CIMB Islamic to be one of the champions for Value-Based Intermediation (VBI) in the local Islamic banking industry.

VBI is an intermediation function that aims to deliver the intended outcomes of Shariah through practices and offerings that generate positive and sustainable impact to the economy, community and environment, consistent with shareholders' expectations of sustainable returns and long-term interests.

"CIMB Islamic first broached the subject of VBI in 2016, as a means to propel the Malaysian Islamic banking industry into its next phase of evolution. As such, BNM's VBI push

provided the perfect impetus for us to begin this 'sustainability revolution' within the industry," says Rafe.

The intended outcomes of Shariah — enhanced well-being of the people through preserving wealth, faith, lives, posterity and intellect, as well as by generating, accumulating and distributing created wealth in a just and fair manner — are well-aligned with the tenets of environment, economic, and socially responsible investments, as well as of sustainability as outlined by the UN's 2030 agenda for sustainable development.

This is why Rafe felt that the VBI concept deserved a bigger platform to thrive. The idea resonated with the CIMB Group's board and senior management, whose support quickly snowballed into the group's embracing of "sustainability" as one of the key pillars to anchor its next mid-term growth plan.

"CIMB Group's adoption of the sus-

tainability vision speaks strongly of the relevance of these Shariah values towards achieving the triple bottom line of people, planet and profit," Rafe enthuses.

Since then, it has been all-systems-go for CIMB Group's sustainability journey. In August 2018, the group became a member of the UN Environment Programme - Finance Initiative (UNEP-FI). As of November 2018, CIMB Group was the only banking group in Malaysia and Asean to be a UNEP-FI core group member collaborating to draft the principles for responsible banking, together with around 27 leading banks from five continents and 19 countries.

Within CIMB Group, a sustainability unit was set up, with the main objective of embedding sustainability aspects into the mindset and DNA of the group's operations Asean-wide.

In the meantime, a group of middle managers began innovating a few financ-

"CIMB GROUP'S ADOPTION OF THE SUSTAINABILITY VISION SPEAKS STRONGLY OF THE RELEVANCE OF THESE SHARIAH VALUES TOWARDS ACHIEVING THE TRIPLE BOTTOM LINE OF PEOPLE, PLANET AND PROFIT." > RAFA



Rafe Haneef, CEO, Group Islamic Banking, CIMB Group (second left) in Ulu Muda, Kedah where CIMB Islamic has invested in RM1.5mil in a three-year partnership with WWF to support conservation projects at Ulu Muda, BaKelalan and Long Semadoh. Located in the north-east of Kedah covering more than 160,000 hectares, Ulu Muda is a major water catchment area which supplies water for domestic, industrial and agricultural activities within the northern Peninsular. It is also rich in biodiversity, housing a large population of flora and fauna, making it integral for wildlife conservation.

ing solutions. One of the first initiatives was the introduction of 0.10% lower profit rate versus the applicable promotion rate — for new hybrid vehicles and residential properties certified under the Green Building Index — through CIMB Islamic and CIMB Bank Bhd in September this year.

In terms of ensuring positive impact on the community, its existing collaboration with Taylor's Education Group called Program Keusahawanan (PK) Taylor's-CIMB Islamic — which began in 2017 — was given a bigger boost through CIMB Islamic's business grant totalling RM1 million in 2018 to develop and empower more than 100 entrepreneurs in Malaysia's B40 segment.

"Our strategic partnership with the Taylor's Education Group combines their educational expertise with CIMB Islamic's financing solutions to create a robust, well-structured programme — comprising business know-how, marketing and life skills, motivation, and individual business coaching — to enable these entrepreneurs to thrive. This project is a perfect showcase of achieving a Shariah-intend-

ed outcome under the VBI framework," explained Rafe.

The programme boasts of a commendable 80% candidate retention rate in its second year, thanks to complimentary additional classes for children aged 4 to 17-years-old that help boost self-confidence and develop a curiosity in the STEM (Science, Technology, Engineering and Mathematics) subjects.

Similar entrepreneurship programmes are currently being run jointly with universities like Universiti Islam Antarabangsa Malaysia (UIAM), Universiti Utara Malaysia (UUM) and Universiti Teknologi MARA (UiTM), to empower more micro entrepreneurs among the B40 segment in Malaysia.

Other existing high-impact initiatives include projects like the conservation of Ba'Kelalan and Long Semadoh in Sarawak and Ulu Muda in Kedah. CIMB Islamic, through a three-year partnership with World Wide Fund for Nature Malaysia, pledged RM1.5 million to conduct a hydrological study, research and invento-

raise awareness on the importance of these water catchment areas for food and water security of surrounding communities.

So what is next in CIMB Islamic's VBI implementation strategy?

Rafe admitted that the things CIMB Islamic could do to achieve its VBI and sustainability objectives were endless and that both modest and aggressive targets were being mapped out in a five-year plan. Educating and empowering its people is currently top of CIMB's agenda.

"We are also investing in some key initiatives — from developing measurement metrics, deciding on scorecards, and mapping stakeholders' interests — and communicating big-picture goals to our stakeholders in stages. InshaAllah (God-willing), with all these in place, CIMB Islamic hopes to play a leading role in promoting sustainability and VBI to be embraced by not only the Malaysian Islamic and conventional banking industry, but also the regional banking industry," says Rafe.