



# **Activities to Meet Challenges in Implementing Regulatory Framework to Achieve Sustainability Goals**

**Asian Bankers Association  
Policy Advocacy Committee Meeting  
August 30, 2021**

# PRESENTATION OBJECTIVE

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- Share the experience of RCBC in the implementation of the regulatory Sustainable Finance Framework
- Suggest ways of addressing challenges in achieving sustainability goals

<https://www.presentationgo.com/presentation/ant-metaphor-powerpoint-google-slides/>

# BSP CIRCULAR 1085: SUSTAINABLE FINANCE FRAMEWORK

The Philippine banking system is governed and regulated by the *Bangko Sentral ng Pilipinas* (the Philippine Central Bank or BSP).

- **April 2020:** BSP issued Circular 1085, requiring banks to integrate sustainability principles in their corporate governance and risk management frameworks.
- Requirements of the Circular:
  - Duties and responsibilities of a bank's Board of Directors and senior management
  - Internal audit review
  - Annual disclosure on the bank's sustainability strategy
- The Circular provides a three-year transition period for banks to be fully compliant.



BANGKO SENTRAL NG PILIPINAS

OFFICE OF THE GOVERNOR

CIRCULAR NO. 1085  
Series of 2020

Subject : Sustainable Finance Framework

The Monetary Board, in its Resolution No. 415 dated 19 March 2020, approved the sustainable finance policy framework that sets out the expectations of the Bangko Sentral on the integration of sustainability principles, including those covering environmental and social (E&S) risk areas, in the corporate governance and risk management frameworks as well as in the strategic objectives and operations of banks.

Section 1. Section 153 of the Manual of Regulations for Banks (MORB) on Sustainable Finance Framework is hereby added to read, as follows:

#### Section 153 SUSTAINABLE FINANCE FRAMEWORK

**Policy Statement.** The Bangko Sentral is cognizant that climate change and other environmental and social risks could pose financial stability concerns considering their significant and protracted implications on the bank's operations and financial interest. In particular, physical and transition risks arising from climate change could result in significant societal, economic and financial risks affecting the banks and their stakeholders. The Bangko Sentral likewise recognizes the critical role of the financial industry in pursuing sustainable and resilient growth by enabling environmentally and socially responsible business decisions consistent with the aspirations set out for the Filipinos under the Philippine Development Plan.



Towards this end, the Bangko Sentral expects banks to embed sustainability principles, including those covering environmental and social risk areas, in their corporate governance framework, risk management systems, and strategic objectives consistent with their size, risk profile and complexity of operations.

**Scope of Application.** This Framework shall apply to all banks. Branches of foreign banks may adopt the relevant policies and strategies of their Head Office that are consistent with applicable provisions in this Section.

**Definition of Terms.** For purposes of this Framework, the following definitions shall apply:

- a. **Sustainable Finance.** This refers to any form of financial product or service which integrates environmental, social and governance criteria into business decisions that supports economic growth and provides lasting benefit for both clients and society while reducing pressures on the environment.

# IMPLEMENTATION OF THE REGULATORY FRAMEWORK

| CHALLENGES   |                  |   |
|--|------------------|---|
|   | <b>Mindset</b>   | <ul style="list-style-type: none"><li>• Perceived as requiring incremental cost, in light of its associated capacity-building activities.<ul style="list-style-type: none"><li>– Survival and cost-cutting measures: deemed the more pressing concerns amidst the COVID-19 pandemic</li><li>– Sustainability can be a lesser priority</li></ul></li></ul>   |
|  | <b>Execution</b> | <ul style="list-style-type: none"><li>• BSP's Circular 1085 provides high-level sustainability directives<ul style="list-style-type: none"><li>– No details or guidelines on how to institutionalize E&amp;S risk management systems</li><li>– Banks are at various stages in terms of awareness and management of E&amp;S risks but capacity-building requirements and the transition period are uniform across all banks.</li></ul></li></ul> |



## **RCBC's Sustainability Journey**



# SHIFT IN MINDSET

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**Sustainable practices bring about incremental costs**



**Sustainable practices help prevent incremental costs**

- ✓ **Avoided cost of unsafe work conditions and client servicing methods**
- ✓ **Avoided cost of non-compliance / rectification works**
- ✓ **Avoided cost of climate change and healthcare inadequacy**

# AVOIDED COST OF UNSAFE WORK CONDITIONS AND CLIENT SERVICING METHODS

- RCBC focus: promotion of safe and secure work conditions and client servicing methods amidst the COVID-19 pandemic.
  - January 2020: Implementation of Pandemic and Infectious Disease Plan as part of the Bank's Business Continuity Enterprise Plan
    - Clustering of business operations, adherence to government-directed health and safety protocols, streamlining of operations
- RCBC became a digital ambassador for its customers.
  - Digital transformation supported the BSP's advocacy for financial inclusion
  - Ensured the safety of RCBC's customers
  - Digital financial inclusion products (DiskarTech, Go Digital, and ATM Go), support for MSME loans have created sustainable opportunities across the Bank's value chain.



Sanitize  
Hands



Sport the  
Mask &  
Shield



Socially  
Distance



Stay Home  
(high risk and  
vulnerable)



**Protecting the health and safety of employees and clients is an essential element of promoting sustainability, thereby preventing the cost of having a compromised workforce and clientele.**



# AVOIDED COST OF NON-COMPLIANCE / RECTIFICATION WORKS

- RCBC's Environmental and Social Management System (ESMS) since 2011:
  - All lending relationships/credits are vetted from an environmental and social risk perspective.
  - RCBC ESMS Policy: declaration of commitment to sustainable development and management of E&S issues
- Conduct of Environmental and Social Due Diligence (ESDD) site visit / desk review on businesses with elevated E&S risks:
  - Beneficial influence: Prevents clients from paying penalties or incurring additional operating costs that may result from non-compliance with E&S regulations and best practices
  - Cooperative response affirms the influence that banks such as RCBC can have on its clients



**Banks can lead clients toward developing or maintaining projects that will not only result to profits or less costs but also bring about benefits to their environment and community.**

<https://www.presentationgo.com/presentation/2-business-people-shake-hands-powerpoint/>





# AVOIDED COST OF NON-COMPLIANCE / RECTIFICATION WORKS

Examples of the cooperative response of RCBC's borrowers to our ESDD findings:

- Borrowers reduce / eliminate the possibility of penalties or rectification works by the time the second cycle ESDD site visit / desk review (18-24 month cycle) was performed.

| Borrower | Month/Year of ESDD Site Visit / Desk Review | Number of ESDD Findings according to Risk Level |        |      |
|----------|---|---|--------|------|
|          |   | High  | Medium | Low  |
| A        | March 2019                                  | 1   | None   | None |
|          | August 2020                                 | 0   | None   | None |
| B        | March 2018                                  | 3   | None   | 6    |
|          | December 2019                               | 0   | None   | 0    |
| C        | April 2018                                  | None  | 6      | 10   |
|          | February 2020                               | None  | 0      | 0    |
| D        | June 2018                                   | None  | 1      | 3    |
|          | January 2020                                | None  | 0      | 0    |
| E        | November 2018                               | None  | 2      | 2    |
|          | July 2019                                   | None  | 1      | 0    |



# AVOIDED COST OF CLIMATE CHANGE AND HEALTHCARE INADEQUACY

May 2021 Moody's research note: Major banks in the Philippines have the second-largest exposures to credit risks that are linked to environmental factors, particularly climate change

- Five critical sectors: mining, energy, oil and gas, surface transportation and logistics, steel and chemicals, and building / construction materials.
- Major Philippine banks total exposure: 22%, one of the highest in the Asia-Pacific region.
- Countries with inadequate health care systems (low patient coverage, few physicians, and insufficient facilities) are expected to be more vulnerable to climate shocks.

**RCBC continues to pursue financing activities for green and/or sustainable projects to help address urgent environmental and social concerns, primarily clean energy and support for public health amidst the pandemic.**



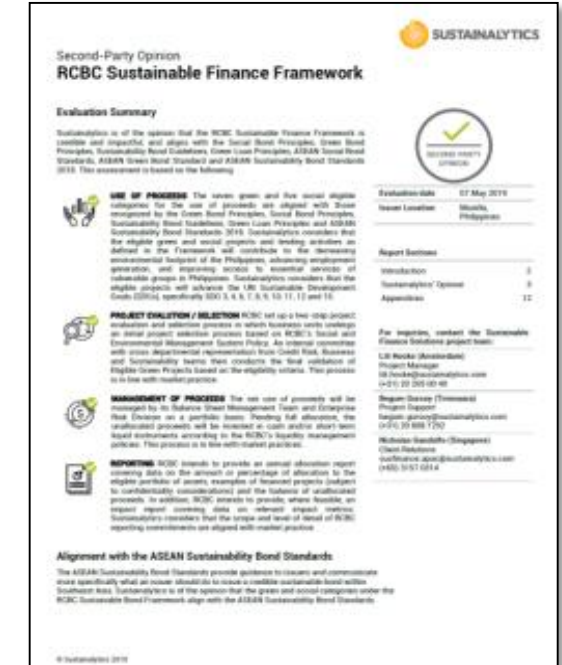
Moody's ESG presentation



# AVOIDED COST OF CLIMATE CHANGE AND HEALTHCARE INADEQUACY

## RCBC's Sustainable Finance Framework, April 2019:

- Articulates the Bank's strategy to raise funds and lend to priority sectors that have clear environmental and social benefits.
- 2019 up to the first quarter of 2021: RCBC has raised USD1.1B worth of green and sustainability bonds
  - Most recent issuance (March 2021), the largest at Php18B (~USD373M) – a deal that came together successfully despite the physical restrictions imposed by the pandemic
  - The pandemic brings with it a heightened awareness of the impact climate and social vulnerabilities can have on customers and on the banking sector.
  - RCBC acknowledges that its long-term viability rests on how it contributes to creating a more stable climate for growth in our country.



**The effects of climate change can be profound on the financial performance of a bank. RCBC's bond issuances aim to raise awareness among peers and inspire other banks to follow suit in green / sustainable financing.**



# FORMULATING AN EXECUTION STRATEGY

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**Banks can design a strategy toward attaining the Circular's sustainability requirements.**

- Review of existing organizational capacities and practices versus the regulatory requirements
- Forming alliances
- Participating in the Regulator's Sustainability awareness programs



# REVIEW OF EXISTING ORGANIZATIONAL CAPACITIES AND PRACTICES VERSUS THE REGULATORY REQUIREMENTS

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BSP Circular 1085: Implementation is in accordance with a bank's size, risk profile, and complexity of operations.

RCBC's Approach:

- Completion of a gap analysis:
  - Identification of current E&S risk assessment processes and capacities
  - Mapping against each requirement of BSP Circular 1085
  - Gaps identified: plotted against a completion timeline within the three-year transition period allowed by the Circular
- Collaboration with other units:
  - Joint effort among cross-functional teams
  - Extended to RCBC's subsidiaries: provides guidance and harmonized approach on these subsidiaries' initial stages of integrating sustainability into their own frameworks and operations



# FORMING ALLIANCES

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- Learning from established Sustainability promoters:
  - Global Reporting Initiative, United Nations Development Programme, and World Wide Fund for Nature
- Alignment of Sustainability Objectives with the International Finance Corporation (IFC), a Shareholder:
  - RCBC subscribes to IFC's eight (8) Performance Standards as part of its implementation of its ESMS
  - January 2021: RCBC entered into an agreement with IFC, engaging IFC and 2 Degree Investing Initiative (2DII) to build capacities in the application and use of Climate Scenario Analysis.
    - The first to be conducted by IFC and 2DII in Asia.
    - Climate Scenario Analysis: will provide tools to assess and monitor RCBC's portfolio sensitivity to transition risks, to be integrated into the Bank's stress testing results in compliance with BSP Circular 1085.

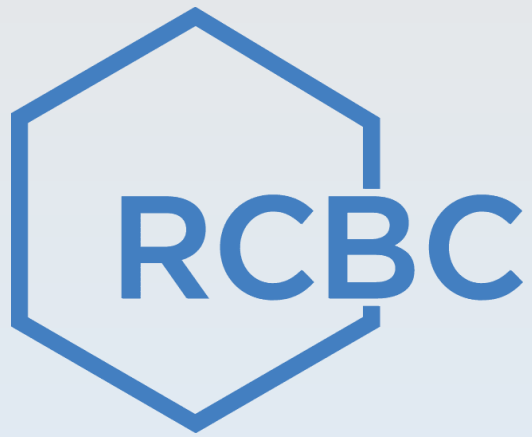




# PARTICIPATING IN THE REGULATOR'S SUSTAINABILITY AWARENESS PROGRAMS

- May 2021: The BSP issued draft Circular on the second-phase sustainability regulations
  - RCBC provided comments to this BSP draft
  - The BSP will also engage banks in discussions during the three-year transition phase before the full implementation of Circular 1085.
- BSP webinar series on Sustainable Finance in partnership with the United Kingdom (UK) Government's ASEAN Low Carbon Energy Programme (LCEP).
  - RCBC participated in the webinar series, September 2020, July 2021 (Sustainability Bonds, Climate-Related Financial Risks and their Disclosures, and Climate Scenario Analysis)
  - Banks are encouraged to join and participate to gain insights on how to implement the requirements of BSP Circular 1085 as may be appropriate to their organization.





## Summary





# ACTIVITIES TO MEET CHALLENGES IN IMPLEMENTING REGULATORY FRAMEWORK TO ACHIEVE SUSTAINABILITY GOALS

## MINDSET

Sustainable practices as means of avoiding costs resulting from:

- Unsafe work conditions and client servicing methods
- Non-compliance with regulations / rectification works
- Climate change and healthcare inadequacy

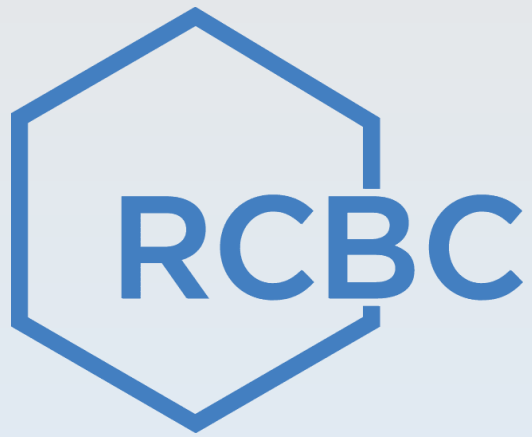


## EXECUTION

Strategy toward attaining sustainability goals:

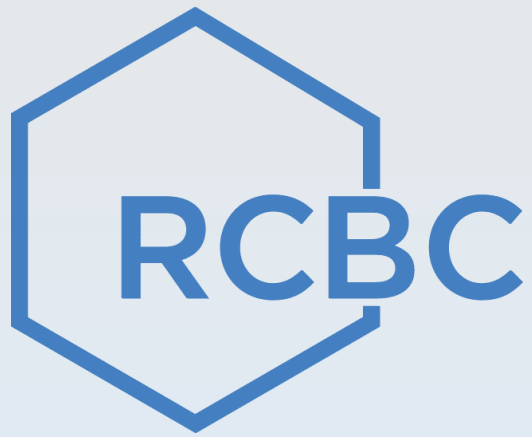
- Review of existing organizational capacities and practices vs. regulatory requirements
- Forming alliances
- Participating in the Regulator's Sustainability awareness programs

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**Q & A**





End of Presentation