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CNK & Associates LLP
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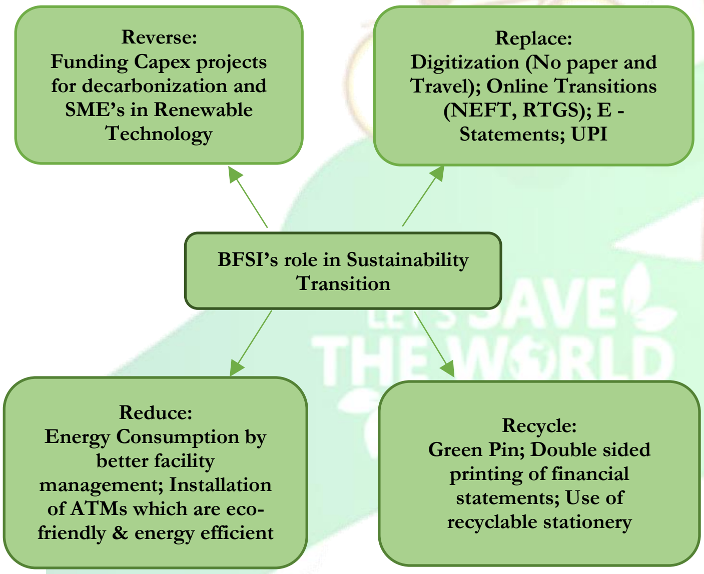
Investing in a Sustainable Future

Edition – September 2024

Editor's Nest

"Embracing ESG in finance isn't just about compliance, it's about leading the way to a sustainable future" – Jordan Greenfield, Tech Entrepreneur

The BFSI Sector has grown exponentially in the last few years. In India, it contributes nearly 1/3rd of the GDP and $1.3 trillion in market cap. As of October 2023, the banking segment alone includes 12 public sector and 22 private sector banks, 46 foreign banks, 56 regional rural banks, 1,485 urban cooperative banks, and 96,000 rural cooperative banks, alongside cooperative credit institutions, underscoring its commitment to financial inclusion and accessibility. In this issue, we'll be taking a break from BRSR principle-wise analysis and focus on how BFSI companies can incorporate ESG factors into their business framework as well as some emerging trends in sustainable finance both globally and in India. One of the ways in which BFSI companies can turn sustainable intentions into reality is by automating its infrastructure. This can be done by investing in intelligent enterprise asset management solutions and using FinOps tools and other predictive analytics dashboards for cost and resource optimization. Let's now consider how existing processes lead to a greener future.



Expert Speak

Governance and ESG: A Cornerstone for BFSI Resilience – Mr. Murali Krishnan, ex-MD South Indian Bank Ltd

Governance failures have led to many downfalls like Yes bank, DHFL in recent times. The 2008 global crisis which had resulted in the entire financial global markets going topsy turvy was due to many failures in applying governance and rational decisions. Good governance is therefore essential in the BFSI sector to avoid any conflict of interest. Assuming a bank needs to avail services of an analytics firm for carrying out data crunching, it must ensure that the entity which eventually bags the mandate should not have any linkage with any of the directors (executive or non-executive) so that there is no conflict of interest. Another example is that the chairman of the audit committee in a bank should not be forming part of any other committee which is involved in decision making of credit transactions. Further, control function heads like CRO, CCO shouldn't be reporting to CEO but only to the board committees. This is because a CEO, who carries the responsibility to deliver various milestones for a bank, might put undue pressure on CRO or CCO to agree to the decision which might be detrimental to the entity in the long run.

Having considered the above examples, the BFSI sector can take away the following pointers -

(a) All banks need to both understand ESG trends and prepare their organisations to take initiatives to comply with those. This is essential as ESG has become a 'Must have' Strategy.
(b) All the stakeholders need to be considered like customers, employees, shareholders, investors, and communities while investing the capital for procuring the right technology.
(c) Like any other strategic initiative, the flow should be top-down driven covering the CEO to the last level employee so that ESG is applied in letter and spirit.

Key Trends in Sustainable Finance

Now, let's understand the intersection of finance and sustainability both in the global and Indian framework. Here's a breakdown of some key concepts:

- **Green bonds**: These are fixed-income investments used to fund environmentally friendly projects, like IBM issuing bonds to finance their new energy-efficient data centres.
- **Blue bonds**: These are debt instruments used to finance ocean-based projects, like Mitsui O.S.K. Lines (MOL), a major shipping company, issuing the world's first blue bonds to finance sustainable ocean operations.
- **Carbon trading**: This allows companies that pollute less to sell permits to those that pollute more, like California's cap-and-trade program allowing companies to buy pollution permits from others that emit less, to comply with regulations.
- **Carbon credits**: It represents one tonne of CO_2 emissions reduced or removed from the atmosphere, like an airline offsetting its emissions by paying for a tree-planting project that captures carbon.
- **Carbon offsets**: This allows companies to balance their emissions by funding projects that reduce CO_2 elsewhere, like a steel manufacturing company paying to plant trees to compensate for its emissions.

Recent ESG updates in Global Banking Regulations

- The *Basel Committee on Banking Supervision (BCBS)* has outlined the Principles for Effective Management and Supervision of Climate-Related Financial Risks which includes corporate governance to effectively manage climate risks, strong board oversight, clear roles for risk identification, and a framework integrating climate alongside other financial risks. Climate-related risks should also be incorporated into all relevant internal control procedures.
- Additionally, banks should ensure that their disclosures are aligned with emerging international ESG guidelines like the ISSB standards.

Recent ESG Regulatory Updates in the Indian BFSI Sector

- IRDAI Corporate Governance Regulation, as notified on 1.4.2024, mentions that every insurer shall have in place a board approved ESG framework. The activities of the insurer under ESG are to be monitored by the Board, and the ESG framework shall be reviewed by the Board on an annual basis. The Board shall also establish a comprehensive Climate Risk Management framework to facilitate the climate risk management, keeping in view their size, nature and complexity of operations.
- RBI offers voluntary guidelines for banks to disclose climate risks and opportunities in their financial statements. This encourages early risk assessment and market discipline.
- According to 2021 Report by Sustainable Banking and Finance Network, India plans ₹ 263 billion Sovereign Green Bond Issuance, which is the first initiative by the Indian government in green funding, useful to fund renewable energy projects.

Let's look at some Indian Best Practices!

1. **ICICI Bank –** 95% rural loan applications are sourced digitally using Express Agri App and around 2000 villages have contactless credit appraisal with satellite data inputs.
2. **IndusInd Bank** – Three corporate offices are green buildings with LEED Gold and Platinum ratings. There has also been 13.75% decrease in paper emissions over FY 20.
3. **State Bank of India –** In 2019, the Bank launched country's first Green Car Loan to encourage customers to buy electric vehicles, and they also introduced a Green Reward Points program for its 'You Only Need One' (YONO) customers to be used for environmental conservation activities.

Contact us for a detailed presentation on the subject of ESG & BRSR Reporting at info@cnkindia.com | +91 22 6250 7600