The first Sustainable Finance Survey in Taiwan

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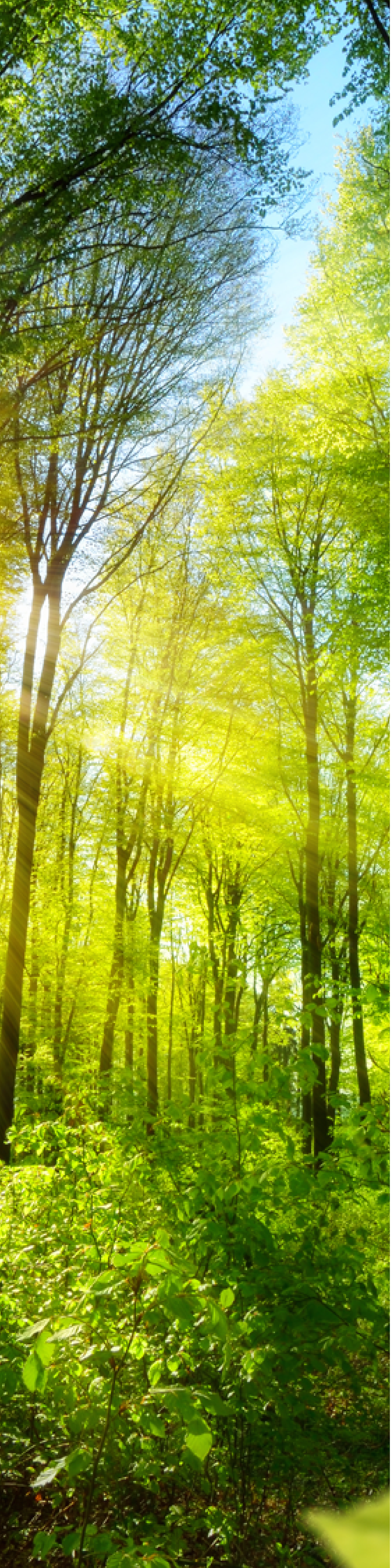
To solve the world's most pressing social, economic, and environmental challenges by 2030, the United Nations set 17 Sustainable Development Goals (UN SDGs) in 2015 to provide a new perspective: the current economic model will seriously damage long-term stability and fail to meet the future needs of the world. However, these SDGs have the potential to unleash innovation, economic growth, and create a new model with their huge market incentives. The Business & Sustainable Development Commission visions that fulfilling SDGs could be worth at least $12 trillion a year in market opportunities and generate up to 380 million new jobs by 2030 in four economic systems which are food and agriculture, cities and urban mobility, energy and materials, health and well-being. The future needs and the pursuit of SDGs of international society will turn into risks and opportunities for enterprises, promoting a financial system oriented towards sustainable finance.

In recent years, many economic transformation concepts that focus on sustainability have been established, such as Low-Carbon Economy, Green Economy, Circular Economy, and Inclusive Growth. Fostering these economic transformations requires more innovation and technological development. The process of expanding their implementations also demands a large number of funds. All the funding processes that support these concepts derive from financial services such as Climate Finance, Green Finance, Inclusive Finance, and Sustainable Finance.

With the ravaging of COVID-19 in 2020, various isolation measures such as social distancing not only caused a serious impact on production and supply in the real economy but also had a huge impact on every person and family's physical and mental status. However, people could notice that during the global crisis, digital technologies that were difficult to implement in the past have been widely used, even becoming one of the new normals in the business model of enterprises. The economic recovery methods in the post-epidemic era had become the main focus of various countries. International organizations such as the United Nations, the European Union, the World Bank, the International Energy Agency, and the International Monetary Fund have successively put forward the concepts and suggestions of Green Recovery and Sustainable Recovery before countries lifting lockdowns, hoping to go "beyond business as usual," avoiding repeating the mistakes of relying on high-carbon emissions and linear economy to revitalize the economy during past financial crises, and making the crisis a great opportunity to achieve SDGs.

At the same time, Financial Supervisory Commission in Taiwan took the lead in keeping up with the international trend. It officially announced the Green Finance Action Plan 2.0 on August 18th, 2020. In the past, the goal was to promote green finance by encouraging financial institutions to increase investment and financing of green energy industries. Now, it aims higher to guide financial institutions to fulfill sustainable finance by supporting green industries and those that are beneficial to sustainability, to guide enterprises and investors to pay attention to ESG issues through financial mechanisms, to form a virtuous circle in promoting capital markets and industries to pursue sustainable development, as well as to achieve carbon reduction and SDGs with the joined effort of the public and private sector.

To boost the practice of sustainable finance and respond to important government policy measures, Taiwan Business Council for Sustainable Development (BCSD Taiwan) worked with Global Views to conduct this survey, exclusively sponsored by HSBC Bank (Taiwan), hoping to understand the opinion of Taiwanese financial sector on sustainable finance. With insights gathered, people could clarify the current situation and identify the needs of the financial market, facilitating the cooperation of professionals in all fields and the development and business opportunities of Taiwan's sustainable finance in the future.



Key Numbers

94.1%

of the respondents believe that the scale of sustainable investment will grow

13.7%

of them believe that the amount of increase could be more than 50% in the future.

33.3%

of the respondents believe that they have sufficient skills to apply ESG.

48%

of enterprises have formal procedural documents or policy requirements for sustainable finance.

48.9%

of the respondents have set specific goals for sustainable finance.

45.9%

of the respondents believe that they are ready for the measures and regulations announced by the government (Green Finance Action Plan 2.0).

Executive Summary

Financial Sector generally agrees on the importance of sustainable finance. There is still a gap between recognition and implementation.

This survey is the first sustainable finance survey in Taiwan, aiming to understand the current view of financial sector on sustainable finance. It is hosted by BCSD Taiwan and is conducted by Global Views Survey and Research Center. This survey was conducted from October 26th to November 18th, 2020, with 51 financial enterprises which have committed to the Stewardship Principles in Taiwan as the sample of the survey.

It is found that the financial enterprises support and recognize the importance and the development of sustainable finance in all aspects. Most of the respondents have a positive view on the benefits and the growth that sustainable finance can bring in the future, whether it is those that SDGs can have on economic revitalization or those that sustainable finance can achieve in different aspects. Nearly 95% of the respondents are optimistic about the performance of the sustainable investment scale in the next five years. Among them, more than 10% believe that the increase rate could be more than 50%. At present, 90% of the respondents have integrated ESG into their decision-making processes. 98% of them express that the integration is beneficial, and more than 60% of them believe that it is helpful to financial performance.

However, the statuses of ESG implementation in financial enterprises vary in the industry, and most of them are still in the development phase. Most of the respondents point out that risk management and policy requirements are the two main reasons for them to include ESG. Although 90% of the respondents have integrated ESG into their decision-making processes, only 33.3% consider themselves as highly-equipped with enough ESG skills. The most implemented ESG practices are adopting the negative screening (exclusionary screening), reallocating funds for ESG-themed product, and adjusting funds or investments according to clients' ESG-related performance. Respondents self-assessed with sufficient skills apply 3.73 methods on average, which is higher than overall condition. As for setting specific goals related to sustainable finance, nearly half of the respondents have done it. Among them, 75.0% of the goals have been achieved with continuous improvement. In addition, the survey also points out that among the practical aspects of sustainable finance at the moment, investment is the most implemented, followed by credit.

Regarding the government's Green Finance Action Plan 2.0, most respondents agree with it, but less than half of them believe that they are prepared for appropriate solutions. The unclearness of the Plan is the biggest problem for the implementation, followed by the lack of resources. In addition to more specific evaluation methods and definitions, the respondents also expect to access a reliable database and related evaluation models.

The importance of sustainable finance

When asked about whether the respondents agree post-epidemic economic revitalization measures should help achieving Taiwan's sustainable development goals and the UN SDGs, all the respondents agree. Similarly, when asked if they agree that sustainable finance is an important corporate social responsibility issue for financial sector, 95% agree, with merely 2.0% disagree.

Sustainable finance can be divided into five aspects, including economic benefits, environmental benefits, social benefits, corporate governance performance, and overall financial system stability. Regarding the view on the importance of various aspects of sustainable finance, 90% of the respondents rate all aspects as important. Among them, the economic benefits and overall financial system stability are highly rated with nearly 95% of the respondents' support.

Regarding the growth rate of the sustainable investment scale in the next five years, most respondents believe that the sustainable investment scale will grow in the future. More than 50% of the respondents express that the growth rate would be more than 16%, and more than 10% of respondents believe that the growth rate could be more than 50%.

Currently, the respondents believe that policies and regulations (86.3%) and risk management (60.8%) are the main incentives for financial sector to practice sustainable finance. Regarding the factors affecting future decisions, 55% of the respondents indicate that they understood the content of Green Finance Action Plan 2.0, and 60% believe that the integration of ESG factors into the risk management system is an important sustainability issue in the future. Meanwhile, the respondents point out that they rely on government resources for all the details of policy measures, related climate risk models, and ESG databases. Therefore, they expect that more communication between government and private sectors to facilitate the thriving and robust of a sustainable financial ecosystem.

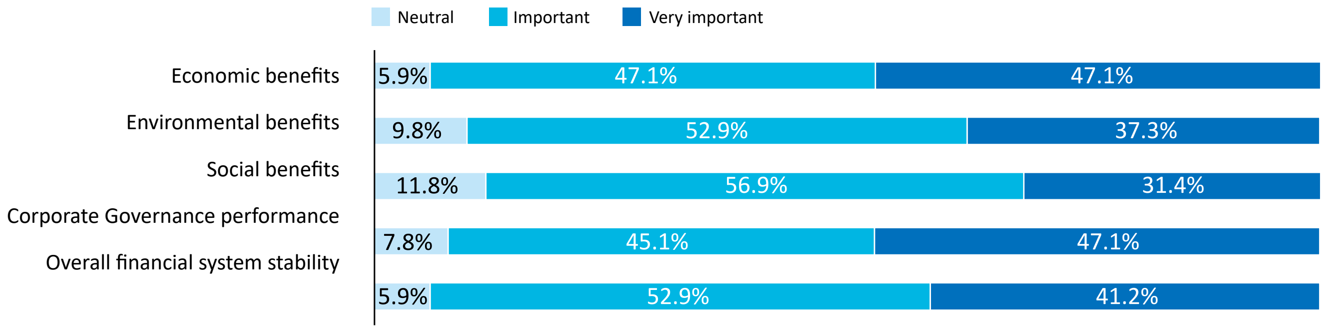


Figure 1: The importance of sustainable finance in all aspects

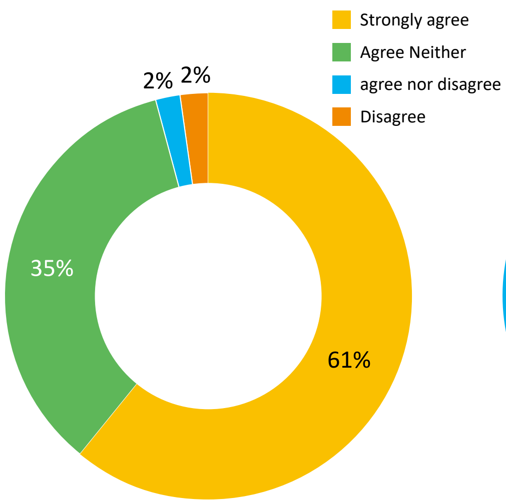


Figure 2: Sustainable finance is an important corporate social responsibility issue in the financial sector

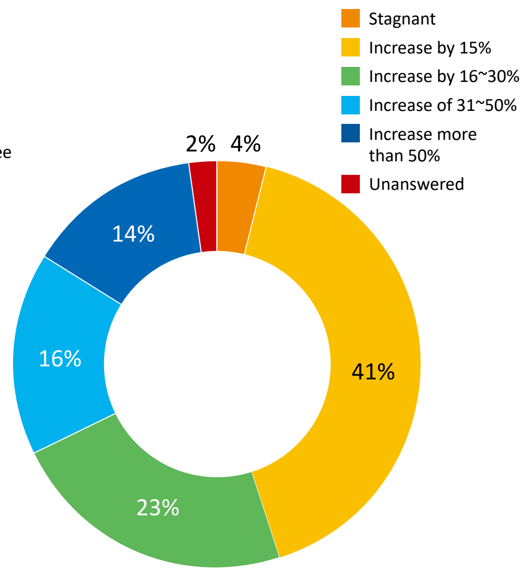


Figure 3: The growth rate of sustainable investment scale in five years

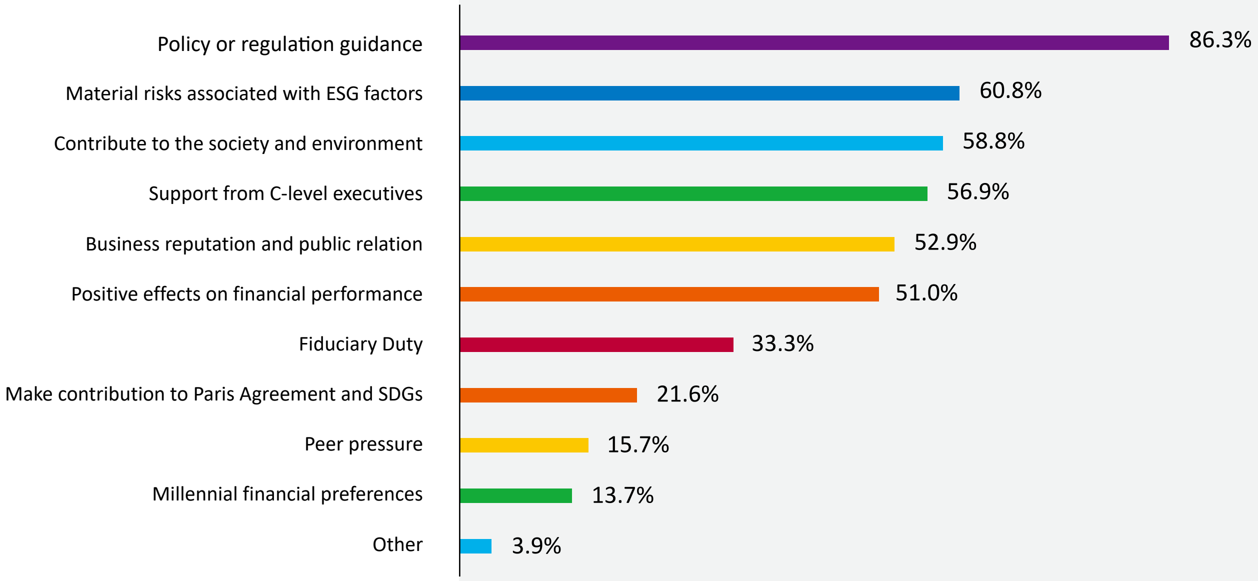


Figure 4: Incentives for practicing sustainable finance

Figure 5: Important ESG themes

The gap between recognition and implementation

Regarding the influence of integrating ESG into the decision-making processes, 98% of the respondents say it is helpful. Specifically, more than 30% of the respondents believe that the main benefit of integrating ESG into the decision-making processes is the positive benefits for the environment and society. Secondly, they believe it can help reduce risks and stabilize returns. In addition, more than 60% of the respondents point out that the practice of sustainable finance is beneficial to financial performance.

On the whole, most respondents acknowledge the importance of sustainable finance, but the gap between recognition and implementation still exists. Only 33% of the respondents believe that they are equipped with enough skills to adopt ESG into their decision-making processes. Most of the respondents agree that sustainable finance brings economic benefits to them and improves overall economic stability. Also, they recognize that Green Finance Action Plan 2.0 can make a substantial contribution to sustainable development. However, only 46% of the respondents think they are well prepared for the upcoming policy and measures, and 70% concern about inadequate skills to apply ESG. Among them, the lack of quantitative ESG data and financial materiality ESG data is considered as major challenges when introducing ESG into the decision-making processes.

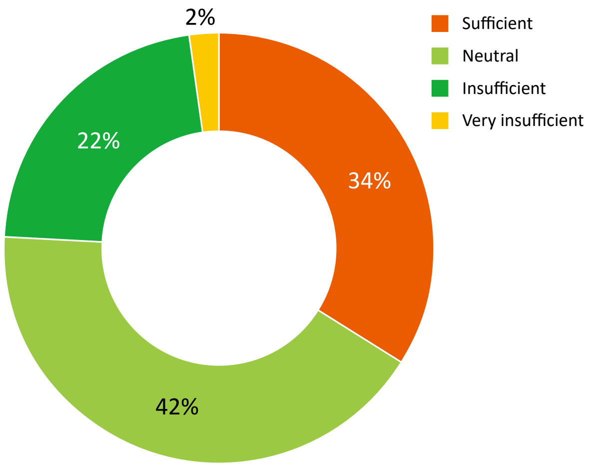


Figure 6: Corporates' skills to apply ESG

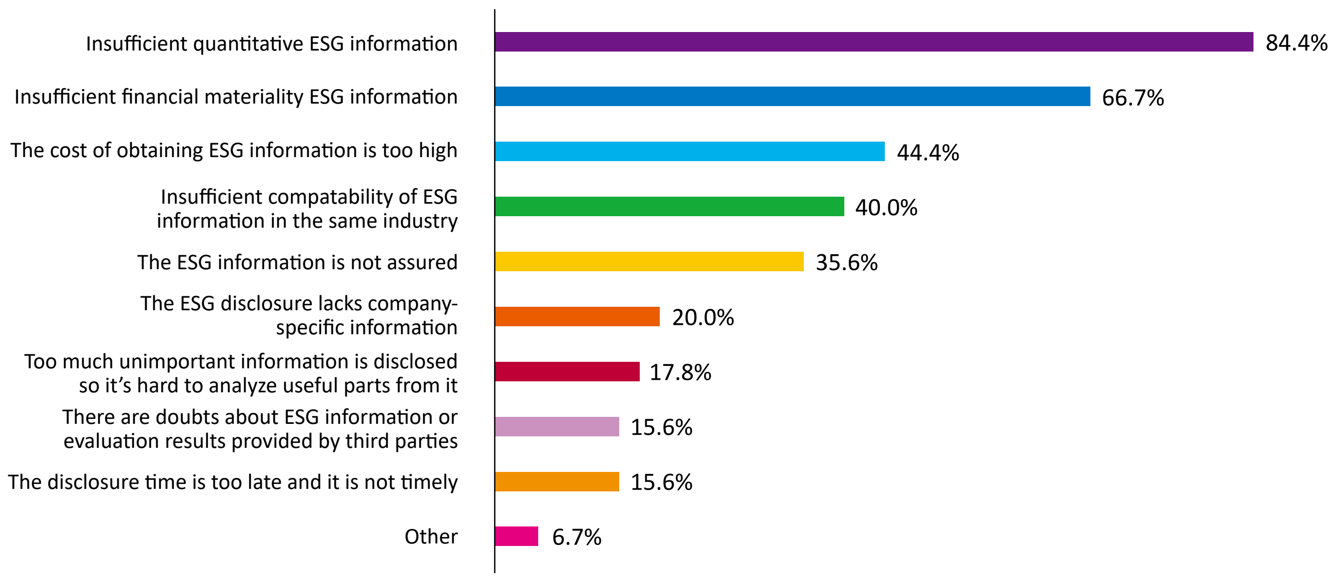


Figure 7: Restrictions on applying ESG to decision-making processes

The situation of ESG implementation in decision-making process

90% of the respondents have incorporated ESG into their decision-making processes, and nearly 50% have integrated ESG into their internal formal procedures. For those that have incorporated ESG into their decision-making processes, the most common practices are the negative screening method (66.7%), developing ESG-themed financial product (51.1%), or reallocating funds (44.4%). On average, respondents apply 3 methods. Those who self-evaluated with having sufficient ESG implementation skills apply an average of 3.73 methods, those with ordinary skills apply an average of 2.83 methods, and those with insufficient skills apply an average of 2.20 methods.

Approximate half of the respondents have specific goals related to sustainable finance, and 75% of the goals have been achieved among them. 55% of the goals are related to responsible investment/loan. Besides, the respondents also point out that the key to facilitating sustainable finance is the support from C-suite executives and experts on sustainable finance.

After the integration of ESG into the decision-making processes, the most adopted implementation by the respondents is sustainable investment, nearly 80% of them practice ESG in the investment business. The second highest ESG adaptation is in the credit business (about 30%). For the practice methods of applying ESG in investment, more than half of the respondents adopt the negative screening, and half of the respondents have reached more than NT$ 10 billion in investment scale. More than 60% of the respondents' ESG investment scale is less than 1/4 out of their total investment scale, and 20% of them have reached 75-100%. As for applying ESG to credit business, the main method adopted is to reject or divestment in specific industries. About 80% of the respondents have a credit scale of more than NT$ 10 billion, and half of the respondents' credit scale is less than 25% of their total credit scale.

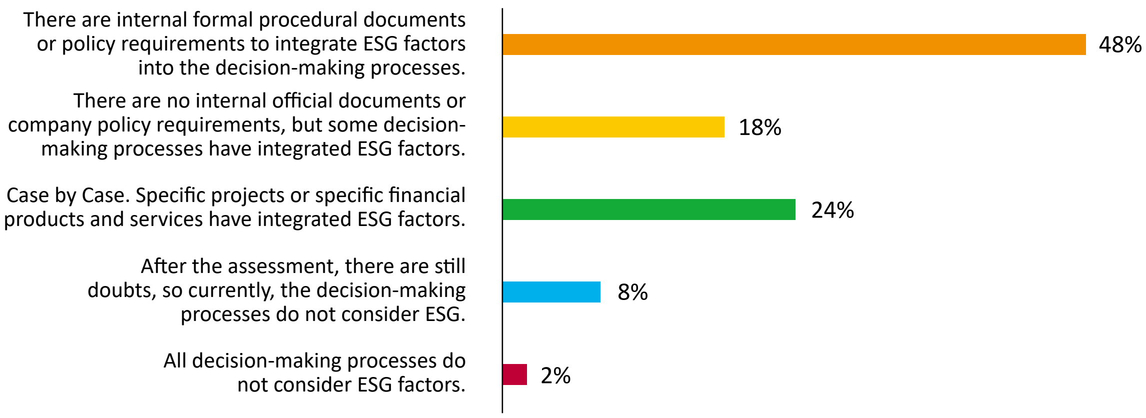


Figure 8: Has your enterprise incorporated ESG into the decision-making processes?

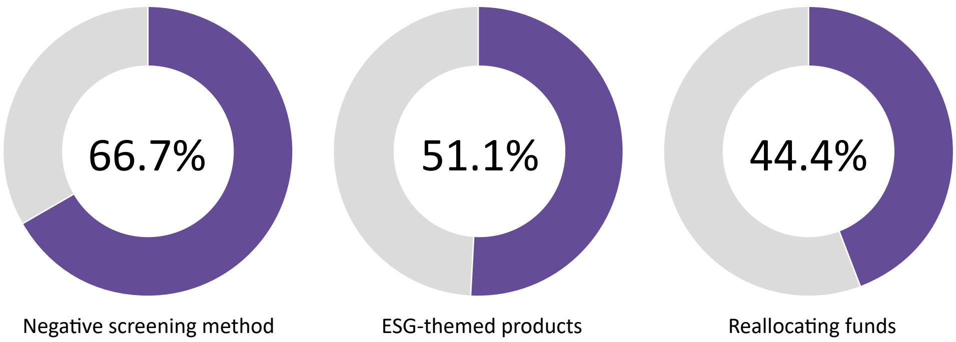


Figure 9: The most commonly adopted ESG implementations in the financial industry

Green Finance Action Plan 2.0

Most respondents acknowledge the role of government in driving sustainable finance, and 86% of the respondents agree that government policies can guide the funds to align sustainable finance. However, regarding the comprehension of the policy, only 55% of the respondents rate themselves as understanding, and only 46% of the respondents think they have prepared to implement the policy measures.

Regarding the opinions for the 38 measures in the Green Finance Action Plan 2.0, most of the respondents recognize that the 16th measure "cultivation of financial professionals" is the most important one. Nearly 30% of the respondents believe that it is important to foster talents. The second to fifth places on the lists are: encourage sustainable investment, improve inquiry platforms, revise Stewardship Principles, and develop supporting measures for green finance market funding.

The respondents' view of the Green Finance Action Plan 2.0 launched by the government is similar to that of sustainable finance: there is a gap between recognition and implementation. The reason may be that the content of policy measures is not precise enough, even if corporates intend to implement it, there is no way to start. 60% of the respondents express that the clarity of measures greatly influences the implementation of the plan. Besides, insufficient corporate resources and market support also account for the gap.

Figure 10: Degree of acceptance of Green Finance Action Plan 2.0

Measures in the Green Finance Action Plan 2.0 ranked by importance	Percentage
Cultivate professionals with knowledge of green and sustainable finance	**29.2 %**
Encourage financial institutions to invest in sustainable development projects	**25.0 %**
Establish and strengthen ESG data integration and lookup platform	**22.9 %**
Amend the Stewardship Principles for Institutional Investors	**22.9 %**
Develop supportive measures to strengthen the operation of green finance market	**22.9 %**
Improve the quality of ESG data disclosure	20.8 %
Encourage the development of green insurance in Taiwan	20.8 %
Incorporate ESG responsible investment into self-regulatory rules	20.8 %
Encourage financial institutions to finance sustainable development projects	20.8 %

Figure 11: Measures in the Green Finance Action Plan 2.0 ranked by importance

Taiwan Sustainable Finance Platform

Sustainable finance is an international trend, and those who have not started to promote sustainable finance should step up. As mentioned above, the lack of ESG-related skills and data, as well as the lack of precise policies, are the challenges for financial sector implementing ESG into decision-making. To solve the implementation problems, the respondents are asked what can be improved in the promotion of sustainable finance.

Green Finance Action Plan 2.0 defines the content and classification of sustainable finance. Most respondents expect that the plan can clarify the ESG data evaluation methods, the scope of data disclosure, as well as clearly define disclosure of targets and activities. 70% of the respondents believe that "precise evaluation methods" are helpful for ESG decision-making and implementation, and more than 50% believe that "the extent of data disclosure" and "clearly define the environmental and social goals that need to be supported" can be helpful.

Green Finance Action Plan 2.0 will also establish an ESG information platform and database. The respondents point out that not only ESG data should be included in the database but also the indicators should be fully explained at the same time, to assist future decision-making. In the survey, more than 90% of the respondents express the need for clear definitions of quantitative indicators, and more than 50% of the respondents require complete qualitative indicators, materiality issues, and corresponding indicators.

To establish a sound financial ecosystem, respondents are asked about their expectations of the platform dedicated to sustainable finance in this survey. More than 60% of the respondents believe that the platform should promote concepts and practices of sustainable finance, as well as serve as a communication channel for the private sectors and the government. The function of talent cultivation, and discuss key promotion scopes in Taiwan are also highly expected.

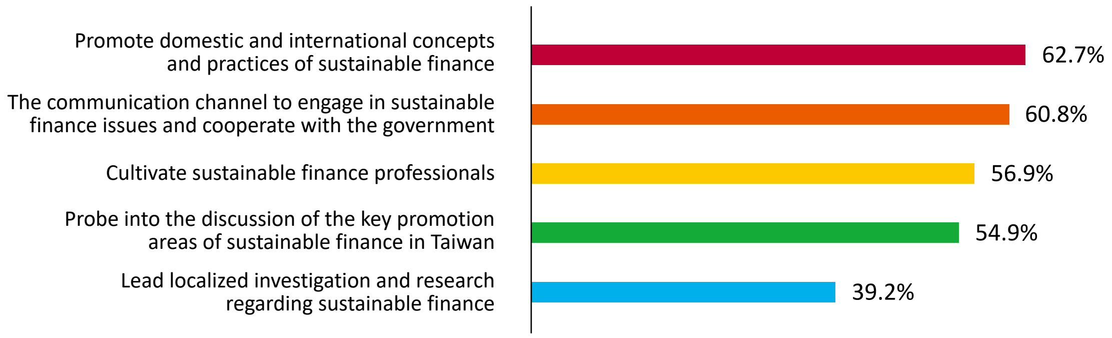


Figure 12: Most expected functions of Taiwan Sustainable Finance Platform

Conclusion

The respondents support and recognize the importance and development of sustainable finance in all aspects. In response to the international situation and government policies, many of them have gradually incorporated ESG into thier processes. They are also optimistic about the scale of sustainable investment in the future and gradually implement the ESG spirit in their business. In conclusion, this survey points out that the current status of sustainable finance among financial enterprises are as follows:

- Although 48% of the respondents have incorporated ESG factors into internal documents or policy requirements, only 33.3% of them are self-evaluated with sufficient implementation skills. Insufficient ESG data is the most encountered bottleneck by the financial sector in practices.
- Nearly half of the respondents have set specific goals related to sustainability, of which 55% are related to responsible investment/lending. Currently, in terms of practical actions, negative screening, reallocating funds, and development of ESG-themed financial products are widely adopted.
- More than 80% of the respondents agree that Green Finance Action 2.0 can guide funds to economic activities that are beneficial to sustainable development. They also agree that it can increase the external market's attention to sustainability and even help to change the behavior of general industries.
- Among the 38 measures of the Green Finance Action Plan 2.0, talent cultivation is the most valued. At the moment, only 44% of enterprises have provided their employees with relevant training, showing that building a talent pool is one of the most needed resources by the industry.

Government

What implications does this report have on the government, other enterprises, and investors? First of all, nearly 90% of the respondents believe that policies or regulations are strong incentives for the implementation of sustainable finance since the role of the government in promoting sustainable finance is crucial. The financial sector is supervised by laws and regulations, and their ESG information mainly refers to the information published by the government or stock exchange. Therefore, it is expected that the government will have a clear definition of the regulations. If it can clarify the evaluation method, the scope of data disclosure, and the targets and activities, the government can surely facilitate the implementations. In addition, the respondents recognize the launch of Green Finance Action Plan 2.0 and its advantages, but less than half of them believe that they are prepared to respond. Therefore, if the government can present relevant models and databases for reference, it will help sustainable finance to be in practice.

Industries

For general industries, more focus is on the financial institutions' ESG implementations and practices. In terms of integrating ESG into the decision-making processes, negative screening method and reallocating funds based on the sustainability-themed performance of their clients are commonly applied; in terms of the ESG implementations of credit or securities underwriting, divestment in specific industries is often used, other than that special service are provided for industries that are beneficial to sustainability. In short, if an enterprise maintains a fair ESG performance and discloses data effectively, obtaining funds will be easier and vice versa.

Investors

It is worthy of investors' attention that Green Finance Action Plan 2.0 strengthens measures such as market mechanism and data disclosure. The strengthening of the market mechanism is related to the promotion of sustainability-related products/services. At present, several financial institutions have developed ESG products (i.e. mutual funds, insurance products, and green/sustainable bonds), so that investors have more access to sustainability-related products/services. On the other hand, improving the quality of ESG data disclosure provides investors with reliable and detailed references to make well-informed investment decisions.

Survey Methods

Survey Methods

The survey was designed and produced by the BCSD Taiwan. It is the very first survey that focuses on the Taiwanese market to understand the views of Taiwanese financial sector on sustainable finance, as well as to clarify the current situation and identify the needs of the financial market to benefit the development of sustainable finance in the future. The survey is divided into three parts, namely:

1. The importance of sustainable finance
2. The current status of the respondents' implementation of sustainable finance
3. Views on Green Finance Action Plan 2.0

Survey objects

The survey of Taiwan's sustainable finance was conducted on 151 financial enterprises in Taiwan who have signed the Stewardship Principles.

The data collection method is to ask the respondents to fill in the survey on the Internet. The data collection period is from October 26 to November 18, 2020. In the end, a total of 51 respondents completed the survey, with a response rate of 33.8%. The total contributed capital of the 51 respondents is NT$ 6 trillion, accounting for 66.5% of the overall survey objects.

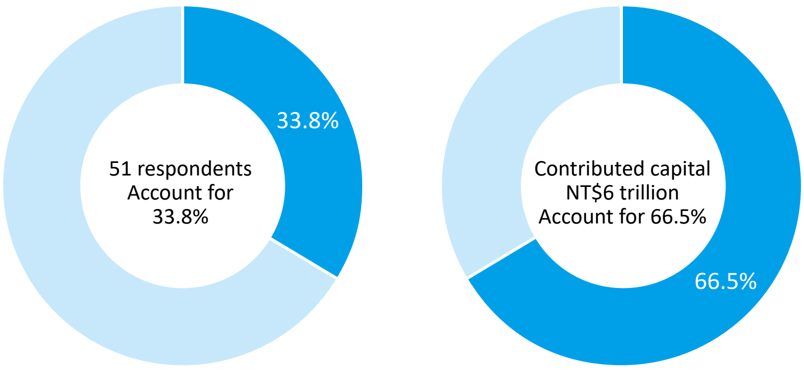


Figure 13: Sample structure

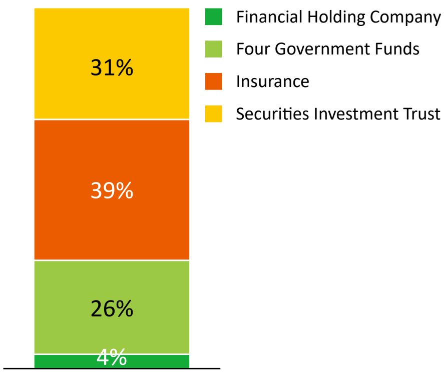


Figure 14: Interviewees' Industries

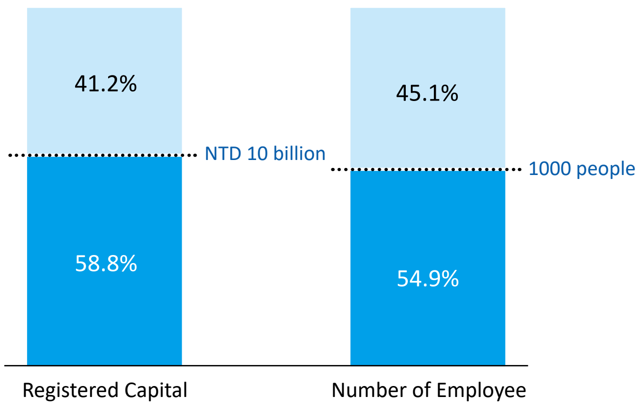


Figure 15: Interviewees' corporate size

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