Exploring Environmental and Social Risk Management of Indonesian Banks

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Abstract. Environmental and social problems are expected to be the next crisis after the pandemic. It is known that financial institutions carry a pivotal role in shaping the economic direction of a nation. With the rising social and environmental issues, this paper attempts to explore and analyse the environmental and social risk management of Indonesian banks. The data of this research were taken from in-depth interviews with seven Indonesian banks. This study employs a qualitative research method in assessing the management of environmental and social risk. The paper found that there are some initiatives among the banks in the implementation of social and environmental risk management programmes. The initiatives cover most of the social and environmental issues currently faced by the nation. However, there is no specific issue addressed by the banks to optimise the effect of the programmes. Moreover, there is a lack of a robust framework guiding the practices of the banks. Government and non-governmental organisation supports are essential in building a robust and sound policy assisting the implementation of the industries. Our results seek to reinforce the research and development facing environmental and social issues globally.

Keywords: Environment; Social; Risk management; Banks; Indonesia.

1. Introduction

Banks play a vital role in a financial system of a nation. As the greatest financial institutions, banks carry huge impact on society behaviour. In the modern economic system, banks lead the direction of engagement between society and financial institutions [11]. [15] stated that almost all daily transactions of life involving banking system. Accordingly, banks are among the key elements supporting a nation's economic growth. This is simply because banks circulated the money from surplus people to deficit playing their role as intermediaries.

The world has been hit by the pandemic Covid-19 severely. Not only financial crisis, social crisis has emerged as one of the biggest problems society have to face. The social issues are generally related to religious, human rights, and labour relations practices [7]. Facing these issues, financial institutions can play a role in which helping society financially and creating an investment addressing those issues. Unfortunately, some financial institutions are focusing only on profit maximization while leaving society facing the social issues in their life.

Looking at the practice of industry, a number of banks in Indonesia have not been compromising the environmental impact of their financial transactions. This arguably because of the lack of a solid and robust regulation on the banking and financial ecosystem. Apart from it, several banks have attempted to develop an environmental impact business system with the embracement of information and technology system [3].

Social and environmental issues are the major concern of the global society. The United Nations' Sustainable Development Goals (UN SDGs) are among the initiatives in response to the crisis. Since its launch on 25 September 2015, the UN-SDGs have been the centre of discussion for policymakers and have been adopted by 193 members states of the United Nations (UN) which estimated to be achieved in 2030 (United Nations, 2015).

In the financial sector, a number of initiatives have been taken to support a notion of sustainability in financial sector. Such initiatives are Environmental, Social and Governance (ESG), Corporate Social Responsibility (CSR), Global Alliance for Banking on Values (GABV), and the Global Sustainable Investment Alliance (GSIA). Following these initiatives, some reporting standards have been developed to cater the needs of corporations in practicing their social and environmental contributions. Among the standards developed are Global Reporting Initiative (GRI), the Sustainability Accounting Standard Board (SASB) and the Carbon Disclosure Project (CDP) [11] .

Looking at the global initiatives on promoting values in financial system and the growth of Indonesian financial industry, this study is an attempt to investigate the environmental and social risk management of seven banks in Indonesia. The development of both Islamic and conventional banks in Indonesia might be a miniature for the global initiatives on banking with values. The following sections of this paper is organised as follows. Section 2 captures the literature review of the global environmental and social management of financial industry. The data and methodology are presented in Section 3. Section 4 discusses results and findings and section 5 concludes the paper.

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Literature Review

A sustainable approach of companies has been proven of creating values for both companies and investors [19]. Cheng et al., (2014)[4] argued that both social and environmental contributed by companies and their transparencies in reporting lead them in reducing capital constraints. Doing good to others will exert a better income and make companies profitable. Maqbool & Zameer (20180[10] have inferred in their study that Indian banks with a better contributions on social and environment have more positive impact in their financial performance. This characteristic brings similar impact on Islamic banks which operate under their faith-based operations [9].

In response to the social issues, corporations and financial institutions starting to develop social guidelines for their company activities and giving a brand of social impact corporation or social-friendly company. Social impact business might be those ensuring the social wellbeing, values and justice are sustained throughout their business activities [6]. Looking at the practices of banks, Saridona & Cahyandito (2015)[16] found that Indonesian Islamic banks varied in their social performance. This result indicates that banks have different approaches and strategies in tackling the social issues.

Apart from that, being the first or pioneer of a social contributions to society may have a bigger advantage for a company [2]. Arguably, it is a call for companies to pay more attention on their relations to society. A good social risk management of a company will significantly contribute to its economic performance [18]. Li et al., (2018)[8] brings a notion that in order to boost firm value a company need to have a sound social risk management.

Other than social issues, environmental problems are, however, gaining more attention and consideration from investors, scholars and government. Environmental issues have many forms such as pollution, waste management, deforestation and others [7]. Syarifuddin & Alamsyah (2017)[17] argued that costumers' awareness on green values and products carries big impact on the development of environmental friendly products. Cormier et al., (2011)[5] asserted that environmental and social information of a company leads into reducing stock market asymmetry which build its reputational risk.

Looking at the practice of Indonesian financial industry, it is reported that the disclosure of social and environmental contribution of the industry has grown steadily [1] . Saridona & Cahyandito (2015)[16] found a good social performance of Indonesian Islamic banks in 2013. The practices of social contributions of the banks covered the education and health areas. To get the best contribution and performance Indonesia banking authority must design a robust guidance on periodization in the implementation of socially and environmentally financial system [3].

Based on the aforementioned literature above, there is an unresolved issues on the social and environmental performance of Indonesian financial industry. Thus, this paper humbly attempts to fill the gap of the study and assesses the practices of Indonesian financial industry in performing their social and environmental responsibility.

Data and Methodology

To achieve its objectives, this paper employs a qualitative research method by conducting interviews to seven Indonesian banks which are Bank Jateng, Bank Jawa Barat dan Banten (BJB), Bank Mandiri, Bank Mega, Bank BCA Syariah, MNC Bank and Bank BCA. The interview approach is meant to get the real and practical data of the banks. Moreover, the paper includes some data on the economic and banking industry performance of the nation. Another point of applying a qualitative method is that to achieve the objective of the study by understanding comprehensively the nature of the institutions and regulation in Indonesia.

Result and Discussion

To understand comprehensively the practice of social and environmental risk management of Indonesian banks, it is important to look at the economic situation of the country. In accordance with the world's economic situation, the domestic economy starts to recover from the pandemic crisis with 3.5 per cent growth in the third quarter of 2021 and is projected to grow further in the coming years with the remaining high uncertainties (World Bank, 2021).

OJK (20220)[3] reported that as of February 2022 there are 107 commercial banks and 1,464 rural banks. The total assets of the commercial banks reached 10,061,669 billion rupiahs while the rural banks recorded 446,454 billion rupiahs. On the Islamic side, there are 12 Islamic commercial banks with total assets of 218,438 billion rupiahs. The Islamic industry is supported by 21 Islamic business units holding total assets of 218,438 billion rupiahs (OJK, 2022b)[14] .

With the condition above, the paper attempts on assessing the social and environmental risk management of some Indonesian banks namely Bank Jateng, Bank Jawa Barat dan Banten (BJB), Bank Mandiri, Bank Mega, Bank BCA Syariah, MNC Bank and Bank BCA. The study finds a diverse implementation of social risk management such as distribution of CSR funds, Covid-19 management funds, compensation to orphans and underprivileged, followed by various specific social programmes from the banks.

On environmental risk management, the banks have practised some initiatives which are the implementation of green office, paperless transactions, electrical efficiency, waste management, environmental-friendly lending scheme, water efficiency, tree plantation, reducing greenhouse gas emissions, solar panel instalment, and animal conservation. The detailed implementation of social and environmental risk management of the programmes of the banks is displayed in the table below:

Table 1: Social and Environmental Risk Management Practices of Indonesian Banks

No	Banks	Social Risk Management	Environmental Risk Management
1.	Bank Jateng	• Digitalisation to reach more areas • Groceries sharing and distribution of CSR funds	• Green Office • Paperless transactions • Electrical efficiency • Efficient water usage • Waste management • Environmentally friendly lending scheme
2.	Bank BJB	• Employ local workers • Infrastructure financing • CSR fund distribution • Pandemic management	• Electrical efficiency • Tree planting • Reducing greenhouse gas emission • Paperless transaction • Provision of clean water
3.	Bank Mandiri	• Social and environmental responsibility programme	• Mandiri Eco-Friendly • Environmental friendly financing scheme • Sustainable finance action plan
4.	Bank Mega	• Bank Mega sharing programme	
5.	Bank BCA Syariah	• BCA Syariah Cares programme	
6.	MNC Bank	• CSR fund distribution • Providing compensation to orphans or the underprivileged	• Electricity and paper efficiency
7.	Bank BCA	• A number of women employee occupying director positions • Employees participation in the sustainable financing training • Bakti BCA Scholarship • Building a number of schools • Financial literacy programme for society • CSR fund distribution • Providing Covid-19 Funds	• Using solar panel energy • Green office • Waste management • Paperless transaction • Planting Mangrove programme • Animal conservation

From the data above, it can be clearly seen that all seven banks have their social risk management programmes while there are two banks with no environmental risk management programmes which are Bank BCA Syariah and Bank Mega. There are a number of social risk management programmes which vary among the banks such as distribution of CSR funds, pandemic management programmes, social programmes, sharing programmes, orphanage funds and scholarships. Bank BCA come up with the most various social programmes while Bank Mega and Bank BCA Syariah with only one social programme of each bank.

Meanwhile, the data above shows that the environmental risk programmes of the banks are lesser compared to the social programmes. However, most of the banks have been concerned with environmental risk management with some programmes which are green office initiatives, paperless transactions, electronic and water efficiency, waste management, solar panel instalment, environmentally financing schemes and also animal conservation.

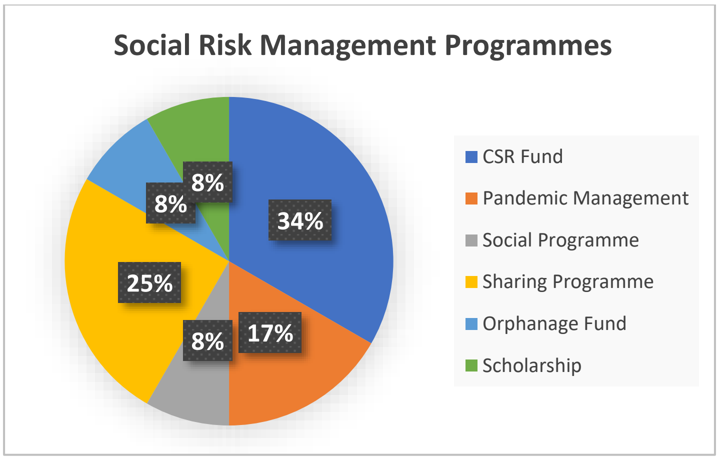

Figure 1: Social Risk Management Programmes

The chart above summarizes the social risk management programmes of the banks with the domination of CSR fund distribution which has been implemented by 34% of the respondents. Following as second and third domination are sharing programmes and pandemic management with 25% and 17% respectively. The result indicates that the Covid-19 pandemic has had a severe impact on the performance of the financial industry and led the industry to behave differently.

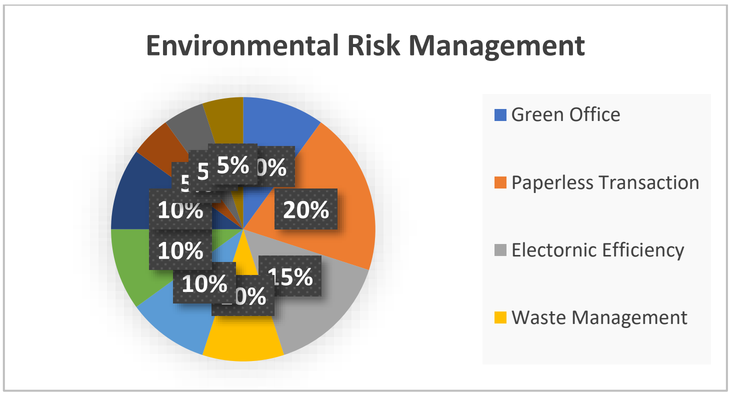

Figure 2. Environmental Risk Management Programmes

The environmental risk management programmes have covered various aspects. Generally, the environmental programmes have been practised by the banks equally with slight domination of paperless transactions compared to other initiatives. It might be because of the fast-growing digital era and the new normal life since the presence of the Covid-19 pandemic crisis. The second most popular environmental risk programmes of the banks are electronic efficiency with 15% implementation. Some of the programmes which are waste management, environmentally financing schemes, water efficiency, tree plantation and green office are practised equally with 10% implementation.

The rest of the programmes are implemented at the level of 5% implementation from the banks which are environmental programmes, solar panel installation, and animal conservation. The results indicate no specific issue has been a priority for the banks to tackle. The environmental programme implementation is different compared to the social one with the range of 15% while the social implementation with the range of 26% in all its programmes.

Conclusion

Indonesian banks have performed well during the pandemic Covid-19. Social and environmental risk management appeared to be the next storm for the financial industry. The current study aimed to examine and analyse the current social and environmental risk management of Indonesian banks. The paper found that there are some initiatives among the banks in the implementation of social and environmental risk management programmes. The initiatives cover most of the social and environmental issues currently faced by the nation. However, there is no specific issue addressed by the banks to optimise the effect of the programmes. Moreover, there is a lack of a robust framework guiding the practices of the banks. Therefore, the study urges the policymakers on designing a robust framework leading the programme implementations of the banks.

The paper has some limitations. First, it is limited to a number of banks which can hinder the broad understanding of the real situation of the industry. Second, the paper inclusively employs a qualitative method with an interview approach. A future study might use another method to get different perspectives. Finally, the study mainly uses descriptive analysis to get its purpose. Future research can analyse differently such as using the causality relationship.

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