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Research Article

The Climate Financial Landscape: A Case Study Of Financial Companies In Malaysia

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ARTICLE INFO	ABSTRACT

A growing recognition among nations underscores the necessity of mobilizing domestic resources to finance the transition to low-carbon and climate-resilient economies. This is especially crucial for developing and low-income countries, which predominantly depend on international aid and financing and often lack sufficient internal resources to address climate change. This paper analyzes the climate finance landscape of Malaysia's financial holding companies using the Domestic Climate Finance Landscape (DCFL) methodology developed by the Institute for Climate Economics (I4CE). The primary objective is to examine and track climate-related investments and funding flows of 13 Malaysian financial holding companies listed in Bank Negara Malaysia website. Data were sourced from financial statements and sustainability reports. The findings reveal that these FHC exhibit diverse focuses on financing climate activities, each aligned with their respective missions and visions Furthermore, all Malaysian FHCs finance climate activities for businesses and corporate clients, with five FHCs specifically targeting small and medium-sized enterprises (SMEs). Future research could explore a comparative study between the climate finance strategies of Malaysian FHCs and those in other developing countries which could provide valuable insights on climate financing issue at global level.

Keywords: Climate finance, Malaysia, Financial companies, Domestic climate finance landscape (DCFL)

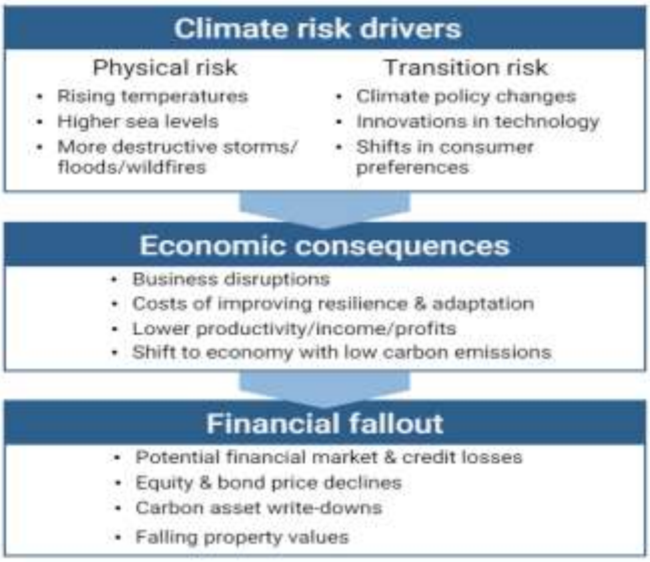
Introduction

The potential for the economy to grow in the future may be significantly reduced by climate change due to decreased labor productivity and the redirection of resources from investments in current productivity capital and innovation to climate change adaptation (NGFS, 2018). But the IMF (2018) notes that there is mounting evidence that investors and financial markets do not fully comprehend the impact of weather shocks on output and productivity.

Economic well-being is impacted by climate change in a number of ways, including decreased agricultural yields, decreased worker productivity from rising temperatures, rising health care costs, physical capital destruction from fires, floods, and rising sea levels, loss of biodiversity, and negative spillovers from affected nations (Fabris, 2020). Additionally, by destroying infrastructure and raising the number of subsidies required for the economy and social welfare, it jeopardizes macroeconomic and fiscal stability. These factors have an impact on employment, inflation, public debt and its financing, economic growth, and other related factors. Global maize and wheat production is expected to decrease by 3.8% due to climate change, resulting in substantial financial losses for farmers and higher food prices for consumers (Malhi & Kaushik, 2021). Health problems brought on by climate change are driving up health care costs; by 2030, health-related costs are expected to increase by $2–$4 billion annually (Cevik & Jalles, 2023).

Furthermore, all of this may result in higher costs for specific goods and services like water, insurance, agricultural products and others (Fabris, 2020). Figure 1 below illustrates how this effect spreads to other

sectors, including the financial sector, which play a key role in the economy. The recent economic developments have introduced a complex landscape of financial challenges and adjustments.
The financial fallout refers to the broad economic impact that follows a significant negative event, in this case the climate change. In this context, the loss includes the potential financial and credit loss, equity and bond price decline, carbon asset writes down and falling property values (D, Orazio, 2023).



Source: D'Orazio, 2023

Figure 1. Impact of Physical, and transition risks on the financial Sector

The 2016 Global Risks Report lists three environmental risks among the top five global threats that the world is currently facing. From the Global Risk Report (2016), it can be inferred that the environment poses the greatest risk and possible cost to the global community. The financial system is impacted by physical, transition, and liability risk in a number of ways, including an increase in insurance claims, declined corporate profitability, declining bond and equity values, and a decline in demand for financial services and products causing the slowing down of the economic growth (D'Orazio, 2023).
Physical and transition risk events have already occurred in Malaysia, according to BNM. A once-in-a-century flood event that affected parts of the nation in December 2021 caused greater than anticipated financial and economic damages. This is confirmed by a prediction made by Rasiah et al. (2017) that, in the event that Malaysia does not implement climate control policies, the total cost of the country's climate damage could reach an astounding RM40 trillion over the course of 100 years (2010–2110).
In this paper Financial Holding Companies (FHC) are frequently seen as environmentally friendly organizations, especially when contrasted with other manufacturing or heavy industries that produce a lot of waste or pollution. FHC do have an indirect external influence through the actions of their clients, even though they may not physically produce outputs that harm the environment. FHC, for instance, have an indirect impact on the environment because they fund middlemen in a number of industries that emit large amounts of carbon dioxide or pollute the environment (such as the oil, gas, steel, and coal industries).
Financial institutions and financial companies are now faced with the challenge to transition to a low-carbon economy both locally and globally. The percentage of assets owned by Malaysian financial players that could be impacted by climate change as of November 2019 is approximately 11.7%. (www.bnm.gov.my). 83 percent of the banks' direct exposure to greenhouse gas emissions (GHG) comes from the four financing sectors that they finance. The manufacturing sector led with 25%, followed by the electricity, gas, and water sector at 23%, the transport, storage, and communications sector at 22%, and the mining and quarrying sector at 13%, as shown in Figure 2. (RFI Foundation, 2022). This suggests that the financial sector has the potential to amplify the negative effects of unfavorable events related to climate change and the green transition because it's role as a mediator for household and company savings and investments (Bernardini et al., 2021).

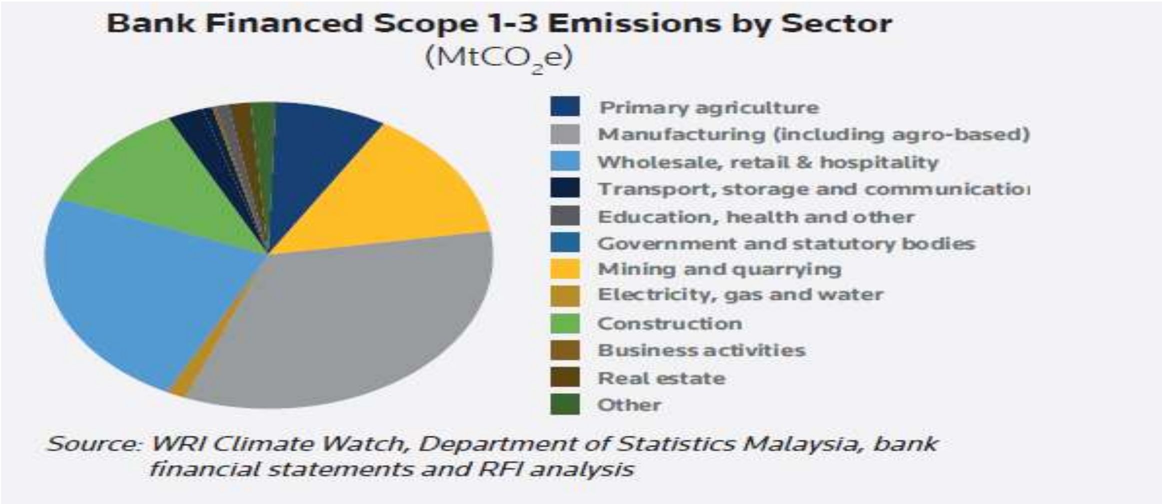


Figure 2. Economic Sectors financed by Banks in Malaysia

Governments and prudential regulators worldwide are putting forth new requirements to better understand the effects of climate change on their economies and regulated entities, as climate change poses a systemic risk to the financial services sector (KPMG, 2021).
Therefore, in order to improve the mobilization and allocation of funds for climate finance issues, it is crucial to understand the current state of climate finance in Malaysia.
Stakeholders can ensure that resources are allocated effectively and efficiently by identifying opportunities an d gaps for improving financial mechanisms by analyzing the current state of climate finance.
This knowledge can also be used to match international commitments like the Paris Agreement and national climate strategies with financial flows.

Methodology and Data

In the context of climate financing in Malaysia, an exploratory research methodology is appropriate for gaining insights into the current state of climate finance, the parties involved, the challenges and opportunities, and potential areas for improvement in this area. Adopting the technique of Domestic Climate Finance Landscape (DCFL), develop by The Institute for Climate Economics (I4CE), this study focusses on financial companies, (holding companies) in Malaysia to understand and track their climate-related investments and fundings flows. All of the information gathered was obtained from publicly accessible sources such as financial statement, sustainability report and the company's website. Thirteen (13) financial holding companies that are listed with Bank Negara Malaysia are used in this study (as of 2023).

Table 1. List of Financial Holding Companies

1. Affin Holdings Berhad
2. Alliance Financial Group Berhad
3. AMMB Holdings Berhad
4. BIMB Holdings Berhad
5. CIMB Group Holdings Bhd.
6. HLA Holdings Sdn Bhd
7. Hong Leong Financial Group Berhad
8. K&N Kenanga Holdings Berhad
9. Malaysia Building Society Berhad
10.Maybank Ageas Holdings Bhd
11. MNRB Holdings Berhad
12. RHB Capital Berhad
13.Tune Protect Group Berhad

Source: Bank Negara Malaysia (www.bnm,gov.my)

A financial holding company (FHC) is a type of bank holding company that is permitted to conduct non-banking financial activities in Malaysia, including securities underwriting and insurance. This type of company owns more than 50% of the total shares in a licensed entity or less than 50% of the total shares but retains control over a licensed entity is known as an FHC. Furthermore, in order to qualify as an FHC, the organization must have BNM approval. Under the Financial Services Act (FSA), these organizations are subject to regulation by Bank Negara Malaysia, the Central Bank of Malaysia. Rather than producing goods or services, FHCs concentrate on asset management and investment, managing and supervising the financial operations of their subsidiaries.

The Institute for Climate Economics (I4CE) created the Domestic Climate Finance Landscape (DCFL), a thorough analysis that plots financial flows toward climate action within a particular nation. This initiative's main objective is to examine and comprehend how financial resources are distributed to support efforts to mitigate and adapt to climate change. DCFL tackles the following six main economic issues: risk management, investment, financial regulations, carbon pricing, public finance, and economic incentives.

Literature Review

Pressure from stakeholders can affect the private sector's daily operations and decision-making because it conducts business through a network of relationships among groups that have an interest in the activities (Fassin 2009). Empirical evidence from studies on institutional theories has shown that various institutional factors influence corporate business strategies related to climate change (Luo and Tang 2016; Cadez and Czerny 2016).

According to research on global climate governance, the climate finance movement is a component of the transnational regime complex that is emerging for climate change (Abbott, 2012). Attempting to direct the mobilization of climate finance from investors and private financial institutions are the public and private regimes. Five Various initiatives, such as climate finance programs and private governance networks, help financial institutions gradually change their investment strategies (Ayling and Gunningham 2017).

These networks include the numerous institutions that have been built to support the mobilisation of climate finance through inviting private financial institutions to become a member of the initiatives to engage them in discussion. For example, the United Nations Environment Programme Finance Initiative (UNEP FI) was launched as a Public Private Partnership (PPP) in which financial institutions around the world are voluntarily encouraged to come together under the neutral platform of the UN to identify, promote and adopt best environmental and sustainability practices at all levels of the financial institution’s operations (Yasui 2011).

Previous empirical research on corporate climate actions (Boiral, Henri, and Talbot 2012; Böttcher and Müller 2015; Damert and Baumgartner 2018) has observed a positive correlation between climate change regulations and the integration of climate change into companies' business strategies. Furthermore, Freedman and Jaggi (2005) found that corporate carbon disclosure choices are more favorably associated with their home nation than with the nations in which they conduct business. Similarly, it stands to reason that financial institutions' engagement in climate finance is influenced by the climate policy of their home nations.

Analysis of Result

The DCFL sheds light on the financial constraints and mechanisms influencing climate finance by identifying these issues (i4ce.org). Effective climate policies and improved stakeholder experience sharing can be shaped by the DCFL's insights [i4ce.org]. All things considered, the DCFL produced by I4CE is essential for comprehending and maximizing the financial environment in order to support national climate goals. In this study, the DCFL framework is used to analyse the current landscape of financial companies (Financial Holding Companies) in Malaysia pertaining climate financing. Table 1 below lists all the sources, instruments, users, and sectors of climate financing currently implemented by financial companies in Malaysia.

Table 1. Domestic Climate Finance Landscape of Financial Holding Companies in Malaysia

Sources & Intermediaries	Instruments/Tools	Uses	Sectors
1. Affin Holdings Berhad	Loan financing	Household, businesses	Education, energy, manufacturing, transportation, building & water
2. Alliance Financial Group Berhad	Solar Financing (RM10m) High Tech & Green Facility (HTG)- RM10m SME Automation &Digitalization Facility (RM3m)	SMEs and businesses	Renewable energy, manufacturing, green businesses
3. AMBank Group (AMMB Holding)	Green Financing Facilities (RM400m-2023) SME Smart Eco financing-ECO (RM5	Businesses and Manufacturer	Real Estate, Residential projects, Electric Vehicle (EV) and Warehouse

4. Bank Islam Malaysia Berhad (BIMB)	m-users & RM15m-producers Green Technology adoption, capital expenditure, working capital (RM2.62 b-2022)	SMEs and businesses	Companies engaged in renewable energy (RE) and sectors with direct climate mitigative capacity, or positive social impacts
5. CIMB Group Berhad	Sustainability-Linked Financing (SLF) Program RM70b, 2021	SMEs and Large Corporation	Clients in High carbon emitting sectors
6. Hong Leong Assurance Berhad and 7. Hong Leong Group Berhad	Financed in Electric Vehicle RM390, BEV, HEV and PHEV RE Financing RM3.3b-solar bioenergy, small hydro	SMEs, clients and businesses	Renewable Energy, Electric Vehicle
8. K&N Kenanga Holdings Berhad	Education, social partnership #Greenatwork, #ThinkESG Donate RM600,000 to community investment Financing Social enterprises: Silent Teddie's Bakery and Dialogue Includes All Academy (DIA)	Society, K&N stakeholders	Education, Social Enterprise, Investment Activities
9. Malaysia Building Society Berhad (MBSB)	Partnership for Carbon Accounting Financial (PCAF) Environmental and Social Framework for financing decision	Corporate Clients,	Sustainable sectors, businesses
10.Maybank Ageas Holdings Bhd (Maybank Group)	Sustainable Product Framework (SPF) -Sustainable Retail Financing: RM7.53b	SMEs and mid-sized corporate clients	Social finance, and finance emission sectors; power, oil &gas, agricultural, utilities and construction
11. MNRB Holdings Berhad	ASEAN Green Energy Pool Protégé & Community Empowerment Initiatives Customer Experience-Customer Journey MNRB in FTSE4Good Ikhlas Barakah House (IBH)	Customers	Takaful and Islamic Wealth
12. RHB Capital Berhad	Group Office Transformation (GOT) Digital Innovation Initiatives Sustainability Financing Program (SFP) RM380b-2022 7 Socially Responsible-RM1.24b; 2022 Investing Enployees volunteered 4,173 hours community investment 2023.	Corporate, retail customers	Sustainable investment and financing; RE, Green Building Eco-Friendly environment in the

13. Tune Protect Group Berhad	Sustainability Committee (SuCom)	Employees of Tune-sustainable working environment	business operation of Tune

Source: Various Sustainability Reports/Statements from FHC (Compiled by Authors) and MSFI

Malaysia's financial landscape is made up of a diverse array of institutions, all of which are essential to the nation's economic development and expansion. The primary financial organizations that are active in Malaysia are examined in this analysis, along with their sources, intermediaries, instruments/tools, uses, and sectors. Affin Holdings Berhad, Alliance Financial Group Berhad, AMBank Group (AMMB Holding), Bank Islam Malaysia Berhad (BIMB), CIMB Group Berhad, Hong Leong Assurance Berhad and Hong Leong Group Berhad, K&N Kenanga Holdings Berhad, Malaysia Building Society Berhad (MBSB), Maybank Ageas Holdings Bhd (Maybank Group), MNRB Holdings Berhad, RHB Capital Berhad, and Tune Protect Group Berhad are among the companies that were examined.

Table 1 above suggests that these FHC have different approaches to funding climate-related initiatives, all of which are consistent with their individual company missions and visions. Due to their high loan and investment levels, FHC specifically targeted business and corporate clients to fund climate-related initiatives. Affin Holdings Berhad mainly serves corporate and retail clients. The bank's financing supports education, energy, manufacturing, transportation, building, and water sectors, helping to promote sustainable practices and reduce carbon footprints across multiple industries. Alliance Financial Group Berhad offers a range of specialized financing instruments, including SME Automation & Digitalization Facility (RM3 million), High Tech & Green Facility (HTG - RM10 million), and Solar Financing (RM10 million). These resources are intended to assist green enterprises, renewable energy initiatives, and small and medium-sized enterprises (SMEs), helping Malaysia shift to more sustainable economic practices.

The AMBank Group will provide RM400 million in green financing facilities in 2023. Manufacturing, green businesses, and renewable energy are the targets of this funding. The group places a strong emphasis on helping companies and producers implement sustainable practices and technologies. Bank Islam Malaysia Berhad provides SME Smart Eco financing with RM5 million for users and RM15 million for producers, with a focus on SMEs and businesses. A total of RM2.62 billion in working capital, capital expenditure, and green technology adoption are supported in order to improve sustainability across a range of economic sectors in 2022. A RM70 billion Sustainability-Linked Financing (SLF) Program was launched by CIMB Group Berhad in 2021. The goal of this program is to help big businesses and SMEs implement sustainable practices. The group's main priorities are financing renewable energy projects like solar bioenergy and small hydro (RM3.3 billion) and electric vehicles (RM390 million).

Hong Leong Assurance Berhad and Hong Leong Group Berhad contribute to climate finance by funding education and social partnerships. Initiatives like #Greenatwork and #ThinkESG reflect their commitment to environmental sustainability. They have also donated RM600,000 to community investments and finance social enterprises, fostering social and environmental improvements. K&N Kenanga Holdings Berhad is involved in climate finance through investments in high-carbon-emitting industries like power, oil and gas, agriculture, utilities, and construction, as well as social finance. They want to promote sustainability in these sectors by striking a balance between their financial operations and environmental concerns.

Malaysia Building Society Berhad (MBSB) is committed to providing mid-sized corporate and SMEs with sustainable financing solutions. To assist companies in making the switch to environmentally friendly operations, they have implemented programs such as the SME Automation & Digitalization Facility and other green financing options. Maybank Group is committed to sustainability through their financing activities, including sustainable product frameworks and retail financing amounting to RM7.53 billion. They also support the renewable energy sector, electric vehicle financing, and other green projects, contributing to a low-carbon economy.

MNRB Holdings Berhad uses programs like the Partnership for Carbon Accounting Financial (PCAF) and an Environmental and Social Framework to incorporate sustainability into their financing choices. They make investments to promote long-term sustainability in fields like green buildings and renewable energy. Through its financing programs, RHB Capital Berhad assists businesses that are sustainable. To help corporate and retail customers adopt environmentally friendly practices and technologies, they have created green financing facilities and loans that are linked to sustainability. Tune Protect Group Berhad prioritizes establishing a sustainable workplace for its staff while promoting an environmentally friendly atmosphere throughout their business operations. Investing in the community and establishing a Sustainability Committee (SuCom) to guarantee that sustainability standards are followed in all business operations are two of their initiatives.

Conclusion

In conclusion, financial holding companies (FHCs) play a critical role in the strategic and varied advancement of climate finance. In addition to promoting sustainability inside their operational frameworks, FHCs have an impact on larger economic sectors by coordinating their initiatives with corporate missions and visions. They can target particular industries like sustainable agriculture, green technology, renewable energy, and the development of environmentally friendly infrastructure thanks to this alignment.

Funds for environmentally beneficial projects can be deployed more easily when specialized financing instruments like impact investment funds, sustainability-linked loans, and green bonds are used. These tools encourage innovation in sustainable practices across many industries in addition to drawing investment.

This collective effort by FHCs contributes significantly to achieving global climate goals by addressing funding gaps and mobilizing resources for the transition to a low-carbon economy Through these strategic investments, FHCs play a crucial role in fostering a greener and more sustainable future, demonstrating their commitment to environmental stewardship and long-term economic resilience.

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