

## Shifting Gears: Key Asian Banks Can Accelerate The Energy Transition, New Report Reveals

**29 August 2024, Singapore** — Banks in Japan, Singapore, and South Korea have progressed in establishing decarbonisation pathways and setting climate-related targets. However, they need to accelerate their efforts to support a timely energy transition and fully align with global 1.5°C climate goals, according to Asia Research & Engagement's (ARE) latest report, *Shifting Gears: Key Asian Banks Can Accelerate The Energy Transition*.

The report looked at 9 banks in three advanced Asian economies.

### Key Findings

- **Decarbonisation Pathways:** All reviewed banks introduced decarbonisation pathways for financed emissions reductions in priority sectors, compared to none in March 2022.
- **Alignment with Climate Goals:** Singapore banks—DBS, OCBC, and UOB—set emissions-reduction targets for key carbon intensive sectors that align with a 1.5°C climate scenario. Additionally, they adopted ambitious policies for oil and gas financing, including pledges to cease new project financing or commit to long-term targets.
- **Medium-Term Targets:** Japanese banks established medium-term sectoral targets for steel and real estate to reduce emissions by 2030. However, Japanese and South Korean banks still need to set both medium- and long-term targets that are aligned with a 1.5°C scenario for carbon-intensive sectors like oil and gas.
- **Board-level expertise:** While most banks have board-level structures to address climate change issues, few have board members with specialized expertise in climate change to effectively guide strategic management.
- **Client Engagement:** Mizuho and MUFG exhibit the most advanced disclosure and engagement strategies to support clients, particularly those in carbon-intensive sectors, in managing energy transition risks.

## Recommendations

The report outlines targeted recommendations across three key areas: Policy, Governance, and Risk Management.

### **Policy and Governance Recommendations:**

The Asian banks need to expand their net-zero targets to include more banking activities, particularly facilitated emissions, establish clear policies on new oil and gas projects, and adopt stringent coal financing policies. Furthermore, the report advocates for enhancing climate governance by including climate change expertise in board nominations and linking executive remuneration to climate-related performance.

### **Risk Management and Transparency:**

Banks should develop and disclose tools such as a transition risk matrix to help clients, especially in carbon-intensive sectors, navigate the transition risks. The report also calls for greater transparency in reporting financed emissions and client-level engagement in managing energy transition risks.

"Banks in Japan, Singapore, and South Korea have made significant strides in the last two years, but more decisive action is needed to align with global climate commitments," said Peter Kiernan, ARE's Energy Transition Research Manager and author of the report. "As the demand for fossil fuels diminishes and the shift towards clean energy accelerates, banks in these advanced Asian economies are well-positioned to lead the region's energy transition. However, to capitalise on this opportunity and mitigate risks, they must continue to strengthen their climate policies, governance, and risk management practices.

*Shifting Gears* builds on the insights from the March 2022 report, *Banking Asia's Future*, and provides a clear roadmap for how Asian banks can better align with the global transition to a low-carbon economy.

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## **About Asia Research & Engagement (ARE)**

*Creating change through investor-backed engagement.*

ARE's pioneering approach fills an engagement gap by bringing leading investors into dialogue with Asian-listed companies to address sustainable development challenges and help companies align with investor priorities. With decades of Asia experience, our cross-cultural team understands the region's unique needs. Our high-quality independent research, robust investor network, and engagement expertise, provide corporate leaders and financial decision makers with insights leading to concrete action.

Our work focuses on thematic priorities to promote a sustainable and compassionate Asia.

Our current programmes and goals are:

- Energy Transition: Credible transition pathways in alignment with the Paris Agreement.
- Protein Transition: Transition pathways working towards our investor-aligned 2030 vision.

Founded in 2013, ARE is headquartered in Singapore and has a presence in India, China, and Japan.