Embedding sustainability in Indonesia’s financial services

As the importance of sustainable development has gained greater attention in recent years, companies around the world have started to embed sustainability values in their business practices.

Indonesia has been playing an active role in addressing the challenge of climate change and making progress towards the Sustainable Development Goals (SDGs), including through the development of a national level sustainable finance program.

As part of this initiative, the Financial Services Authority (OJK) has issued a new regulation “POJK 51/POJK.03/2017 on Sustainable Finance Implementation for Financial Institutions, Listed Companies and Public Companies” with the objective of increasing awareness and commitment to implement sustainability principles and develop sustainable finance products. The new regulation is a major milestone in the OJK’s sustainable finance program, or ‘roadmap’, which supports Indonesia’s commitment towards sustainable growth and development of a low carbon economy.

EY Indonesia’s Climate Change and Sustainability Services team held a sharing session on November 29, 2017, to help raise awareness amongst financial services institutions about the new regulation and explore how they can contribute to the development of a more sustainable finance sector in Indonesia. The event gathered representatives from a range of Financial Services Organizations (FSOs).

Executive Director, Rebecca Razavi, shared insights into the development of the standards, the detailed requirements of the new regulation and the implications for businesses in Indonesia. While the first phase of the regulation implementation will focus on large Indonesian banks and foreign banks, it will expand to include all FSOs and all public and listed companies in Indonesia within the next two years. The first adopters will be required to develop and submit sustainable finance action plans by 2019 and publish
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Sustainability reports latest by April 2020. Examples of leading practice in sustainable finance were shared and discussed and the importance of ensuring policy, products and wider organizational strategy taken into consideration at the operational and C-suite level was emphasized.

Recognizing that this is a new step for many FSOs in Indonesia, the OJK plans to release in early 2018 further technical guidelines as a reference for supporting the implementation of the regulation. Representatives from the International Finance Corporation (IFC) also shared their insight and understanding of the new regulation and the plans for phased implementation.

The overall expectation is for financial institutions as well as all listed and public companies to use the opportunity of this new regulation to adjust their operations to embrace sustainable finance and adopt best practice for managing environmental, social and governance (ESG) issues. There is good evidence that with the right approach, better management of ESG issues can benefit the performance of the whole business.

Please contact the EY Indonesia CCaSS team if you would like to discuss any aspects of this article or would like to receive further details of the new OJK requirements and timetable for implementation.