International Journal of Advances in Engineering and Management (IJAEM)
Volume 6, Issue 09 Sep. 2024, pp: 586-588 www.ijaem.net ISSN: 2395-5252

A Study on the Development of Green Finance Business of Commercial Banks under ESG Concept

Po Sheng Ko, Ya Ju Tsai
National Kaohsiung University of Science and Technology

Date of Submission: 15-09-2024 Date of Acceptance: 25-09-2024

ABSTRACT:
Under the background of ESG (Environment, Society and Governance) concept, the development status, existing problems and corresponding countermeasures of green finance in commercial banks. Firstly, the article outlines the ESG concept and its close relationship with green finance. Subsequently, the paper analyzes the development status of green finance in commercial banks under the background of ESG, including its ESG information disclosure, green credit, green bonds and ESG products. The problems existing in the process of developing green finance in commercial banks are pointed out. Including the low quality of green information disclosure, the fact that China Construction Bank has not yet established a sound green rating system, which makes it impossible to comprehensively and accurately evaluate the risks and values of green projects, and the shortcomings of commercial banks in ESG wealth management product innovation, which makes it difficult to meet the diversified investment needs of the market. In view of these problems, this paper puts forward corresponding countermeasures. First of all, we should speed up the improvement of information disclosure standards of commercial banks. Secondly, build a bank ESG green rating system. Finally, attach importance to the innovative ability of ESG wealth management products, so as to promote the development of green financial market.
Keywords: ESG concept; Green finance; Development countermeasure

I. INTRODUCTION

With the global climate change and the increasingly serious environmental problems, sustainable development has become a global consensus. In this context, the concept of environment, society and governance (ESG) has gradually become an important factor in evaluating enterprise value and investment decisions. As a financial model supporting sustainable development, green finance is of great significance to promote global sustainable development by guiding funds to green, low-carbon and environmental protection industries. The performance and development strategies of commercial banks in the field of green finance have an important demonstration and leading role for the whole banking industry and even the financial industry. However, the current development of commercial banks in the field of green finance still faces some challenges. On the one hand, with the rapid development of green financial market, investors' demand for green investment is growing day by day, which puts forward higher requirements for green financial services of commercial banks. On the other hand, the practice and innovation of commercial banks in the field of green finance still face many difficulties, such as the low quality of green information disclosure, the imperfect green rating system and the insufficient innovation of ESG wealth management products. Therefore, how to promote the development of commercial banks in the field of green finance and improve the quality and efficiency of their green financial services has become an urgent problem.

II. LITERATURE REVIEW

Khalil et al.(2023) technological advancement and innovations not only transformed businesses but also optimize numerous functional areas of financial services. Besides, green finance and fintech are also essential tools to achieve sustainable development agendas. Thus, it is imperative to document the evidence that how conducive such factors are to achieve 2030 sustainable development goals. The study, in this regard, is aimed to scrutinize innovation, green finance, financial technologies, and ESG factors altogether in order to determine their effectiveness on sustainable development in Gulf countries in the time span of 2000-2020. Dadabada(2024) this paper investigates the dynamic interplay between Environmental, Social, and Governance (ESG) principles and Financial

International Journal of Advances in Engineering and Management (IJAEM)
Volume 6, Issue 09 Sep. 2024, pp: 586-588 www.ijaem.net ISSN: 2395-5252

Technology (FinTech) innovations within Green finance. Drawing insights from real-world case studies, including Eneco's green bond issuance, Wealthsimple's robo-advisory platform, IBM Food Trust's blockchain-based supply chain finance, and Abundance Investment's P2P lending for renewable energy, the study explores how organizations are integrating ESG considerations with FinTech solutions across diverse sectors. The findings reveal sector-specific impacts, commonalities, and challenges, emphasizing the potential for enhanced transparency, responsible investment practices, and positive societal outcomes. The study contributes to the evolving discourse on sustainable finance by offering actionable recommendations for practitioners, policymakers, and researchers seeking to navigate the complex convergence of ESG and FinTech for a more sustainable financial ecosystem.

III. PROBLEMS EXISTING IN THE DEVELOPMENT OF GREEN FINANCIAL BUSINESS OF COMMERCIAL BANKS UNDER ESG CONCEPT

3.1 The quality of green information disclosure is not high

First of all, for key data such as specific environmental benefits and emission reduction of green projects, banks may only provide overall and general data, but lack specific and detailed index data. For example, in a wind power project, only the total power generation may be disclosed, but key data such as wind speed, equipment efficiency and operation and maintenance cost are not provided, which makes it difficult for investors to accurately evaluate the real environmental protection benefits and economic benefits of the project. Secondly, commercial banks may fail to provide comprehensive and in-depth information on the environmental impact assessment results of green projects. Environmental impact assessment is an important tool to assess the possible impact of a project on the environment. However, commercial banks may only provide the assessment conclusion when disclosing it, without providing detailed information such as the assessment process, methods and data, which makes it difficult for investors to understand the scientific and reliability of the assessment.

3.2 The green rating system is not yet perfect

First of all, the rating standards are too general and lack detailed standards for specific industries and projects. This makes it difficult to accurately reflect the green degree and environmental protection effect of different industries and projects. In addition, some rating standards may pay too much attention to superficial indicators, such as green certification and environmental protection facilities, while ignoring the actual environmental protection behavior and performance of enterprises. Secondly, the index setting may not be comprehensive and scientific enough. The green rating system should comprehensively consider the environmental, social and governance factors of enterprises. However, some current rating systems may pay too much attention to environmental indicators and ignore social and governance factors. In addition, the setting of some indicators may lack scientific basis and data support, which leads to the credibility and effectiveness of rating results being questioned.

3.3 Insufficient innovation of ESG wealth management products

The first deficiency of commercial banks in ESG financial product innovation lies in the singleness of product types and strategies. Although commercial banks have begun to set foot in the ESG wealth management product market, the types of products they have launched are relatively few and their investment strategies are relatively conservative. At present, ESG financial products on the market often cover many investment fields and strategies, including green bonds, clean energy funds and socially responsible investments. However, the products and strategies of commercial banks in this area are relatively single, which is difficult to meet the diversified investment needs of investors. In the design and development of ESG wealth management products, commercial banks may pay too much attention to product risk control and income stability, while ignoring the individual needs of investors. When choosing ESG wealth management products, investors may not only pay attention to the risks and benefits of the products, but also pay attention to whether they conform to their own values and investment ideas.

IV. SUGGESTIONS

4.1 Accelerate the improvement of information disclosure standards of commercial banks

Commercial banks should clarify the content and scope of information disclosure to ensure the comprehensiveness and accuracy of information. In ESG (Environment, Society and Governance), banks should pay special attention to and disclose their practical achievements and potential risks in environmental protection, social responsibility and corporate governance. For example, banks can regularly publish reports on green credit, charitable activities and corporate governance structure to show their efforts and achievements in these fields. At the

International Journal of Advances in Engineering and Management (IJAEM)
Volume 6, Issue 09 Sep. 2024, pp: 586-588 www.ijaem.net ISSN: 2395-5252

same time, commercial banks should also strengthen the disclosure of off-balance sheet business and non-financial information. Off-balance-sheet business is an important part of bank's business activities, and its risk status has an important impact on the stable operation of banks. Therefore, banks should disclose the specific content, risk status and management measures of off-balance sheet business in detail. In addition, non-financial information, such as human resources, intellectual assets, market share, customer satisfaction, etc., are also important indicators to measure the bank's operating conditions, and banks should also pay attention to it and strengthen disclosure.

4.2 Constructing ESG green rating system of banks

To build a comprehensive and effective ESG green rating system, banks first need to establish a comprehensive ESG evaluation framework. This framework should include three core aspects: environment, society and governance. In terms of environment, banks should pay attention to the impact of loans and investment projects on the natural environment, such as carbon emissions, resource consumption and biodiversity, and set corresponding environmental performance indicators. In the social aspect, banks should evaluate the impact of the project on the community, employees and consumers, such as job creation, labor rights protection and consumer rights protection. In terms of governance, banks should pay attention to corporate governance structure, anti-corruption measures and transparency of information disclosure to ensure the compliance and stability of loan and investment projects. Secondly, banks should establish strict ESG rating standards and processes to ensure the standardization and consistency of rating work. Rating standards and processes should cover data collection, evaluation and analysis, determination of rating results and preparation of reports, so as to ensure the comprehensiveness and accuracy of rating work. At the same time, banks should also establish a regular update mechanism of ESG rating to reflect the ESG performance changes of loans and investment projects in a timely manner.

4.3 Attach importance to the innovative ability of ESG wealth management products

In order to improve the innovation ability of ESG wealth management products, commercial banks need to build a comprehensive innovation mechanism first. This mechanism should cover all aspects from product research and development, investment strategy formulation to market promotion. First of all, banks should set up a special research and development center for ESG wealth management products, concentrate superior resources, attract and train a group of professionals with cross-disciplinary knowledge, and jointly study the frontier trends and investment opportunities in ESG field. Secondly, banks should strengthen strategic cooperation with external partners, such as establishing long-term cooperative relations with environmental protection organizations and research institutions to jointly develop investment products and strategies that meet ESG standards. At the same time, banks should also establish a flexible incentive mechanism to encourage employees to actively participate in the innovation of ESG wealth management products and stimulate their enthusiasm for innovation. In addition, banks should also improve the approval and evaluation process of ESG wealth management products to ensure that the products conform to ESG principles and have certain market competitiveness. By building an all-round innovation mechanism of ESG wealth management products, commercial banks will be able to better meet the needs of investors for ESG investment and promote the popularization and application of ESG concepts in financial markets.

REFERENCES

[1]. Khalil, R. G., Damrah, S., Bajaher, M.Unveiling the relationship of ESG, fntech, green finance, innovation and sustainability: case of Gulf countries.Environmental Science and Pollution Research, 2023, 30(54):116299-11631

[2]. Dadabada, P. K. Analyzing the impact of ESG integration and fintech innovations on green finance: a comparative case studies approach. Journal of the Knowledge Economy, 2024, 1-20.