How sustainable is New Zealand's finance?

New Zealand banks are increasingly integrating environmental, social, and governance (ESG) criteria into credit policies and lending activities. In fact, the total value of the sustainable finance market in New Zealand now exceeds $13 billion and sustainability linked loans have been the biggest growing lending product, with over $3 billion of loans announced during 2021[1].

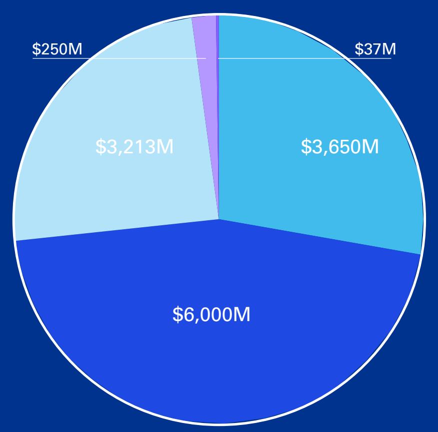

Figure 1: NZ Sustainable Finance Market

- Green Bond
- Wellbeing Bond
- Sustainability Bond
- Sustainability Linked Loan (SLL)
- Other

This activity is not unique to New Zealand; significant evolution occurred in sustainable finance markets internationally during 2021, with the global sustainable debt market now valued at over US$4 trillion. Over US$1.8 trillion of sustainable debt instruments were issued during the year[2], which is more than double the amount issued in 2020.

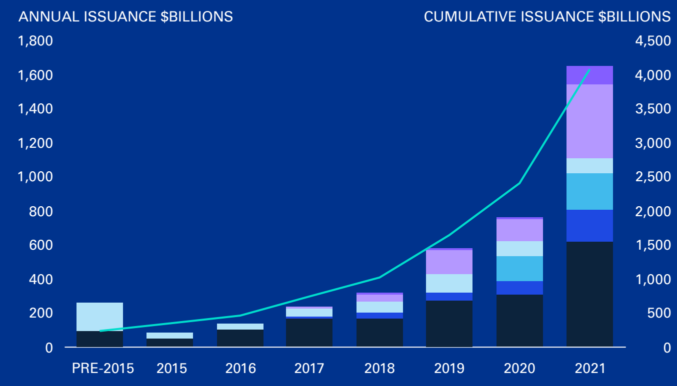

Figure 2: Global Sustainable Debt Market by Year and Product

- Green Bonds (LHS)
- Sustainability Bond (LHS)
- Social Bonds (LHS)
- Green Loans (LHS)
- Sustainability Linked Loans (LHS)
- Sustainability Linked Loans (LHS)
- Cumulative Activity (RHS)

We have also seen a diversification in the types of borrowers accessing sustainable lending products. Corporate borrowers of sustainable debt instruments have historically been concentrated in the energy and construction sectors; however, activity became more diversified in 2021 with borrowers from agriculture, retail, telecommunications and aged care industries.

Public sector activity

Sustainable finance activity has also not been limited to private markets. In the public sector, the New Zealand Government announced plans to issue sovereign green bonds in 2022, with proceeds being applied to finance low-emission or environmental projects to help New Zealand reach the Government's net zero carbon target[3].

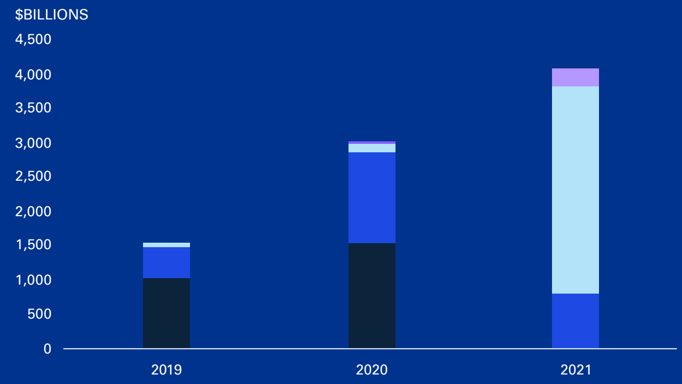

Figure 3: NZ Sustainable Finance Issuance

- Green Bond
- Wellbeing Bond
- Sustainability Bond
- Green Credit Facility
- Sustainability Linked Loan (SLL)

1. Based on press releases throughout 2021.
2. https://www.beehive.govt.nz/release/new-zealand-issue-sovereign-green-bonds
3. https://www.bloomberg.com/news/articles/2021-11-08/the-35-trillion-sustainable-finance-market-gets-greater-clarity

Another example comes from the Local Government Funding Agency (LGFA) announcing plans in 2021 to lend funds to Councils and Council controlled organisations (CCOs) at a discounted margin to enable them to undertake green, social or sustainability projects. The aim is for this to help drive forward ambitious climate, environmental and social projects in the New Zealand local government sector, so it is possible to see agencies using funding to amplify priorities and encourage meaningful results.

Sustainable finance activity has also not been limited to private markets.

This rise of our domestic sustainable finance market across sectors has helped encourage attention from overseas. International funding organisations are increasingly viewing New Zealand as a favourable jurisdiction for raising sustainable debt. The Asian Development Bank issued its first New Zealand dollar gender bond in May 2021, with the NZ$475 million bond proceeds being applied to finance projects that promote gender equality and women's empowerment, while the World Bank issued NZ$1 billion of New Zealand dollar denominated bonds in April 2021.

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Outlook and trends

In looking ahead to 2022, we expect to see a strong focus on regulation of sustainable finance activities, as already seen in offshore markets. The Financial Markets Authority has signalled its intent to help investors have confidence in the integrated product being offered by the sustainable finance market through regulation and education[4]. The regulator's focus will be to target false, misleading, deceptive or confusing behaviour and activities by financial market participants. There is hope that this will drive an education piece both for the consumers and businesses looking to access 'green' or sustainable finance as well as the financial providers who will need to be fully aware of the broad implications around ESG. Moving away from lip service to thorough, informed details of sustainable finance products will be a competitive advantage.

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We have already seen that New Zealand banks are evolving to better understand and disclose climate-related risks. Lending requirements typically now include seeking ESG-related information from prospective borrowings. Some banks are now publicly reporting against each of the four major categories of the Task Force on Climate-related Financial Disclosures (TCFD) framework, in advance of the Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act coming into play. Once the External Reporting Board (XRB)'s climate standards are published, around 200 large financial institutions will be required to publish climate-related disclosures.

4. https://www.fma.govt.nz/news-and-resources/media-releases/expectations-green-investment-products/

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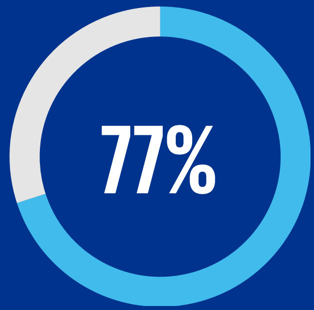
Similar requirements are starting to take hold across other countries and jurisdictions too, so it is no surprise that ESG-related matters featured prominently in KPMG's 2021 Global Banking CEO Outlook which includes the views of over 1,300 CEOs in 11 countries. Bank CEOs are focusing on employee well-being and are looking to devote significant capital to becoming more sustainable, with 37% planning to invest more than 10% of their revenues in their efforts.

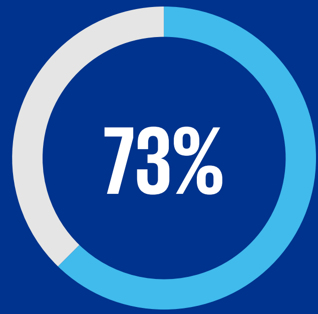
While the focus has been predominantly on environmental factors, the social component has become increasingly important, with some banks reviewing global human rights and modern slavery policies across their operations, supply chains and lending practices.

Many bank CEOs surveyed also saw an opportunity to capitalise on sustainability gains arising from the global Covid-19 pandemic.

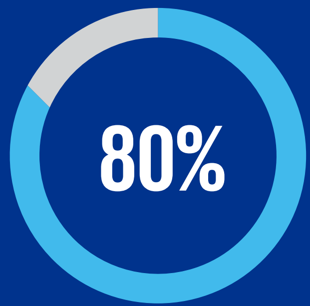
Focus on ESG during the pandemic



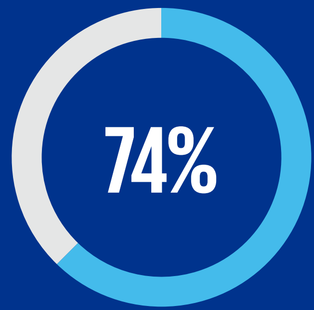
Bank CEOs want to lock in the sustainability and climate change gains that they have made as a result of the pandemic.



of CEOs said they will be increasingly held personally responsible for driving progress in addressing social issues.



Bank CEOs are confident that the response to the pandemic has caused their focus to shift towards the social component of their ESG programme.



of CEOs believe they have responses to help fight global challenges.

More than half (58%) of bank CEOs surveyed saw significant demand from stakeholders to provide reporting and transparency on ESG issues compared with 2020. However, they also highlighted challenges in communicating their efforts to stakeholders, with 44% saying that they struggle to articulate their ESG story.

With respect to pay structure, only 19% of bank CEOs expressed interest in having pay based on performance against ESG goals, in addition to traditional financial-performance goals; however, most felt that they will be held personal responsible for their bank's performance in addressing social issues.

From their own disclosures, to transparency around their products and services, banks and other financial providers are increasingly acknowledging ESG and sustainability as a critical strategic pillar. They have a vital role to play in supporting a sustainable, resilient and inclusive New Zealand economy, holding a unique position of influence within the financial markets. Our Sustainable Finance team is passionate about supporting this relationship between finance and positive impact, connecting capital to what matters and contributing to the evolution of the sustainable finance market.

Banks and other financial providers are increasingly acknowledging ESG and sustainability as a critical strategic pillar.

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