Big read: How financial institutions in Asia are ramping up on nature

Responsible Investor digs into institutions' efforts, the evolving regulatory environment and the emerging opportunities space.

Gina Gambetta - 1 minute ago

Biodiversity and nature have skyrocketed up the agenda of financial institutions over the past couple of years – firms in Asia are no exception, and for good reason.

Almost two-thirds of GDP in Asia and the Pacific is at risk from nature loss, according to a report by Singaporean investor Temasek. This is higher than the global average, which is just over half.

Asia has also had the steepest and largest regional decline of original biodiversity within terrestrial communities, according to the Biodiversity Intactness Index, and another study estimates that the average size of r ... red wildlife populations shrunk by 60 percent in APAC between ... nd 2020.

"Nature loss could lead to significant economic and financial risks for investors and businesses," says Monica Bae, director, investor practice at Asia Investor Group on Climate Change (AIGCC). "The economies' dependency on nature presents a clear business case for investors to take immediate action to address nature-related risks in their portfolio."

For Nana Li, Impax's APAC sustainability and stewardship head, nature is becoming an increasingly critical factor for financial institutions in Asia.

"Over the past year, awareness of nature-related risks and opportunities has grown significantly, driven by global sustainability challenges such as biodiversity loss, climate change and resource scarcity," she says. "While the fundamental importance of nature remains unchanged, its role in financial decision making is expanding rapidly."

Laura Bosch Ferreté, senior engagement specialist at Robeco, agrees there has been increasing focus by financial institutions.

"This trend is partially driven by the sector exposure from these financial institutions, where for instance large asset owners in Southeast Asia have investment exposure to real assets in forestry and agriculture, which can heavily impact and depend on nature," she says.

Progress so far

In a report published in April, AIGCC found that one-third of the 230 Asian investors it assessed have adopted biodiversity-related disclosures and/or a strategy. Approaches included having a nature action strategy, disclosures aligned with the Taskforce on Nature-related Financial Disclosures (TNFD) or deforestation-related disclosures or actions.

On the TNFD, several interviewees flagged its importance in the region. When looking at the list of adopters, Japan – whose government is among the TNFD's funders – takes the top spot by a large margin as the country with the most sign ups. Last year, *Responsible Investor* spoke with several Japanese financial institutions among the early adopters.

Looking to other jurisdictions, there are 10 TNFD adopters from mainland China, 11 from Hong Kong and India, eight from South Korea and Singapore, five from Malaysia and one from Indonesia.

But despite increased momentum, it appears many institutions are at an early stage of considering nature – almost 40 percent of those having taken action according to the AIGCC study had done so at a very high level – and facing a range of challenges.

Unsurprisingly the most common one cited by interviewees was data challenges, particularly location-specific and how to translate it into investment decision making.

Ferreté also highlights a fragmented regulatory landscape across the region and persistent capacity and awareness gaps among some financial institutions and regulators.

Regulators

Despite such hurdles, several interviewees noted that a number of Asian central banks and regulators are playing a role in driving action by financial institutions.

At a high level, many governments have updated their National Biodiversity Strategy and Action Plan (NBSAP) to align with the Global Biodiversity Framework's goals, including China, Indonesia, Malaysia, Japan, India and South Korea.

When it comes to the private sector, in Japan's NBSAP, policymakers pledged to support it in incorporating nature considerations, examine the impact of biodiversity on business activities and encourage dialogue on the issue between financial institutions and corporates.

China's NBSAP suggested establishing a "framework" for corporate biodiversity information disclosure, while South Korea outlined plans to guidance on the TNFD in the Korean context.

A raft of taxonomies have also emerged. According to an analysis by UNEP FI, all of the ASEAN taxonomies – bar the Malaysian Climate Change and Principle-based Taxonomy – include, or plan to include, biodiversity as a key environmental objective.

The Chinese taxonomy also specifically identified nature as a material topic.

When it comes to national disclosure regimes including nature, some work has been done.

In November, the Chinese Ministry of Finance released its "basic" sustainability disclosure standard for voluntary application "before the scope and requirements for implementation are stipulated". Guidance on specific issues, including biodiversity and ecosystems, as well as pollution, water and marine resources, are due at a later date.

Also last year, China's main stock exchanges – the Shanghai Stock Exchange, the Shenzhen Stock Exchange and the Beijing Stock Exchange – put out guidelines which mean in 2026, large listed firms will have to publish sustainability reports.

Entities with production and operational activities that have a "material impact on the ecosystem or biodiversity" should disclose – among other things – efforts and achievements in reducing products' ecological footprint and reliance on the ecosystem, biological species and their habitats, as well as biological genetic resources over their lifecycles.

In addition, the Securities and Exchange Board of India's Business Responsibility and Sustainability Reporting framework includes a requirement for companies that operate in or near ecologically sensitive areas to provide details of significant direct and indirect impact of the entity on biodiversity in such areas, along with prevention and remediation activities.

O ature-related elements include water usage, plastic recycling and w management.

Turning to central banks and financial supervisors, Ferreté specifically flags those in Malaysia, the Philippines and Singapore as beginning to integrate nature-related financial risks into their regulatory and supervisory frameworks.

As an example, she points to the Monetary Authority of Singapore (MAS) issuing guidelines on transition planning for financial institutions, which includes encouraging them to integrate nature and climate risks into strategic planning.

And last year, MAS – alongside the financial industry – established the Singapore Sustainable Finance Association (SSFA), which has a natural capital and biodiversity workstream.

In April, the workstream published a guide for institutions on how to kickstart efforts when it comes to nature risks and opportunities. This included a materiality and risk assessment for Southeast Asia.

Kavitha Menon, director at SSFA, says it is exploring next steps. One option is getting involved in the data and metrics space discussion “as there is a need for standardisation”.

“We also think that given nature is still a new issue for a lot of financial institutions, it could be an option for the workstream to look at topics which are at the climate-nature nexus – for example deforestation and water – as well as ensuring that existing initiatives/guidelines explicitly include nature and how they could be taken further,” she says.

“Another area that needs work regards the opportunities space – in particular nature-based solutions as well as blended finance – so the workstream could explore the hindrances and where can existing work be applied.”

ment efforts

Nature engagement with corporates is increasingly a key part of the puzzle for institutions in Asia. Interviewees said the focus has been on the assessment of risks.

AIGCC's Bae points to a recent study by Norges Bank Investment Management, which found that a higher proportion of Asian companies state nature risks as financially material than North American and European firms.

Looking at international collaborative engagements, representation from Asian financial institutions is still limited.

For example, out of the 230 members of Nature Action 100, eight are from the region. For the Principles for Responsible Investment's (PRI) Spring initiative, there are seven acting as collaborating or lead investors. In both cases, Japanese investors make up most institutions.

When it comes to the focus companies of these initiatives, 23 of NA100 targets are based in Asia, with China taking the top spot with nine firms. For Spring, 14 of the 59 companies are in the region, with four from Indonesia and four from Japan.

Asked about corporate progress so far, unsurprisingly it is a mixed bag.

Sector-wise, Ferreté notes agriculture and food systems are at the forefront due to their high dependency on ecosystem services like pollination and water, while real estate and infrastructure are increasingly incorporating nature-based approaches into urban planning and development.

In a similar vein, Li believes companies in the food, dairy or mining industries have "put more emphasise on it".

"But for others, it's still out of their scope when we do engagements – [having] no expertise on these issues is a common response," she says.

D k Basu, head of responsible investment & stewardship APAC at APG A lanagement, describes a similar situation. “Many companies, particularly those in Asia, are still not fully aware of their nature-related impacts and dependencies.”

“A large part of our efforts is therefore directed towards spreading awareness of the linkages with financial materiality and understanding the practical constraints and challenges that these companies might face in reducing their negative impacts.”

Nature sub-topics

When it comes to nature sub-topics, the need to address commodity-driven deforestation has been critical for institutions for a number of years.

According to AIGCC, Asian countries are among the “top 10 trade destinations” for forest risk commodities; South East Asia in particular is one the “largest deforestation fronts and hotspots”, with 28 percent of global tropical deforestation occurring there because of commodity production.

As Jane Ho, head of stewardship for Asia Pacific at BNP Paribas Asset Management, notes, there is an “increasing acknowledgement we cannot meet climate goals without addressing deforestation, with Asia being the critical region on this”.

BNP Paribas AM engages a range of Asian corporates on the matter, from agricultural producers to food and mining companies. “The level of experience on this topic varies across countries and sectors – within each sector there are also laggards,” says Ho.

Indeed, international collaborative engagement initiatives hone in on the region. For example, PRI’s Spring initiative focuses on – alongside countries in Latin America and the EU – Indonesia, China and India, while the Investor Policy Dialogue on Deforestation (IPDD) has an Indonesian chapter.

T m oil sector has particularly been an area of interest.

For Ho, there has been remarkable progress, “particularly with regards to disclosures”.

Mao Nakade, an investment manager in the RI division of Resona Asset Management, highlights that progress towards sustainable procurement has been made in particular among those companies located upstream in the supply chain – for example trading companies – and those operating in Europe, given its deforestation regulation (EUDR).

Ho also points out that EUDR is “significant” for producing countries in Asia – “a key focus is working with smallholders on capacity building and full traceability”.

Water is already increasingly coming into focus. As Karine Hirn, CSO at East Capital, puts it: “I’ve been based in Hong Kong for 12 years and can hardly recall any event organised in town focusing on nature, except for a few, which were all about water stress.”

AIGCC’s Bae believes that an increasing number of investors are looking at water issues.

“They view this through the lens of water availability and how it can materially impact companies that are heavily dependent on water. They also view it through the lens of the physical risks on the availability of water resources.”

Opportunities space

Broadly, interviewees believe that financial institutions in Asia are predominantly focused on the risk component of nature.

“Investment opportunities in biodiversity solutions are limited in Asia as of now, particularly in listed equities. Investors focusing on this objective may therefore tend to do so through private investments in smaller, specialised companies,” Basu says.

F opportunities space is evolving. Ferreté says banks in Asia are i ingly supporting issuers in bringing to the market green bonds and sustainability-linked bonds tied to some form of nature outcomes.

China's recent Sovereign Green Bond Framework also outlines that proceeds will, in addition to climate change mitigation and adaptation, support projects related to natural resource conservation, pollution prevention and control, and biodiversity conservation.

Nature-based solutions (NbS) are also gaining traction. "We've seen some interest in forest and mangrove restoration projects in ASEAN that help sequester carbon, generate carbon credits and enhance coastal resilience, while protecting and promoting biodiversity in these areas," says Basu.

Bae also says investors have started to build their foundational understanding of NbS and identify investments, especially in South East Asia, "where there are tremendous opportunities for NbS".

Multilateral development banks (MDBs) are also increasingly getting involved. During COP28, a group which includes the Asian Development Bank (ADB) and the Asian Infrastructure Investment Bank (AIIB) published "common principles for nature-positive finance tracking". These set out how the MDBs will identify, define and track their nature-positive finance activities.

At the climate COP, the ADB also launched the Nature Solutions Finance Hub (NSFH), which aims to catalyse at least $5 billion in capital flows for projects, including private capital, by developing innovative finance models such as nature bonds, structures using carbon credits and blended finance mechanisms.

And last October, the ADB issued a $100m biodiversity and nature bond. The following month it published its *Environment Action Plan 2024–2030,* which saw it commit to increasing nature-positive investment.

For the past couple of years, the AIIB has been championing the idea of Nature as Infrastructure (NAI), which aims to highlight the economic value c[illegible]re and redefine natural assets as “essential infrastructure for life t[illegible]nnects local and global interests through their mutual dependence on nature’s services”.

In particular, the AIIB explains ecosystems – such as forests, mangroves and wetlands – deliver valuable services comparable to conventional infrastructure through NbS, while also offering unique resilience and long-term risk-mitigation benefits.

As an infrastructure-focused MDB, the AIIB said it has a unique opportunity to develop a portfolio of NAI and NbS projects, and that it is exploring how it could provide early-stage, concessionary or risk-mitigating financing that catalyses the development of infrastructure projects that support conservation efforts.