

CHAPTER I INTRODUCTION

1.1 Research Object

The objects of this research are leading banking institutions operating within Indonesia and Singapore. This study specifically focuses on the top-tier banks in both countries to ensure a balanced and in-depth comparative analysis. By examining these prominent banks, the research aims to provide a comprehensive understanding of how corporate sustainability performance is integrated into the banking sector's strategies, operations, and disclosures. The emphasis is on assessing the dynamics of sustainable finance practices, including how these banks align with Environmental, Social, and Governance (ESG) principles, and how they respond to regulatory frameworks and stakeholder expectations in their respective countries.

Top-tier banks are becoming the key players in implementing Corporate Sustainability Performance because top-tier banks hold vast financial resources and have widespread influence across economies, with their decisions on where to allocate capital can shape entire industries and economies. As key enablers of economic activity, financial institutions play a crucial role in advancing global climate initiatives. By channeling appropriate funding to the right sectors at the right moments, banks and investors can foster innovation, promote growth, and help ensure a smooth and orderly transition toward a more sustainable global economy. If they prioritize sustainable investments, they can accelerate the transition to a low-carbon, socially inclusive economy (McKinsey & Company, 2023). Not only do top-tier banks have widespread influence across economies, but they also manage massive pools of funds through deposits, loans, asset management, and other types of services. By directing these funds toward sustainable projects, such as renewable energy, green infrastructure, or socially responsible businesses, they play a critical role in scaling up sustainable initiatives (Lexicon, 2024; Shu, 2024).

In the process of becoming the key players in Corporate Sustainability Performance, top-tier banks are heavily demanded mainly by regulatory mandates and investor expectations to implement strategic integration of environmental, social, and governance (ESG) principles into their core operations. Governments and financial regulators globally are enforcing frameworks and policies that push banks to prioritize sustainability. Policy and regulation such as green taxonomies that define what counts as a “green” or “sustainable” economic activity and mandatory ESG disclosures for banks to report their sustainability-related metrics are examples of government action that push banks to prioritize sustainability (G. Ltd., 2025). Another kind of action from the government is giving out incentives like tax breaks or guarantees to banks that issue green bonds or provide loans to sustainable projects. Another huge factor that drives the banks to shift towards sustainable finance is Investor and Stakeholder demand. Institutional investors increasingly demand that the banks they work with integrate ESG factors into their decision-making (Speare-Cole, 2024). All-in-all, these factors have shaped the banking sector particularly the top-tier banks towards implementing corporate sustainability performance in their business activities.

In Indonesia, the top-tier banks are grouped into KBMI 4 (Kelompok Bank berdasarkan Modal Inti 4), which represent the highest tier of banks categorized by core capital under Indonesia’s banking regulations. This classification is defined by Otoritas Jasa Keuangan (OJK), the Indonesian Financial Services Authority, and it is outlined in POJK No.12/POJK.03/2021 concerning the Consolidation of Commercial Banks (Peraturan OJK, 2021). KBMI 4 banks are institutions with a core capital of over IDR 70 trillion, playing a dominant role in the national financial system due to their extensive assets, wide market reach, and critical influence on economic stability.

It is important to note that Singapore may not have a direct equivalent to the KBMI system in Indonesia, as it used core capital as the main factor in selecting the banks that fall into this category. However, each country including Singapore has their own respective national contexts and framework to identify the top banking institutions in terms of asset size, market influence, and systemic importance. These are generally the largest, most well-capitalized banks in each country. One notable framework to classify top-tier banks in each country is called D-SIB (Domestic Systemically Important Banks). Domestic Systemically Important Banks (D-SIBs) are financial institutions deemed critical to a nation's financial stability due to their size, interconnectedness, and economic impact. These banks are considered "Too Big to Fail" (TBTF), meaning their collapse could trigger systemic risks, disrupt essential financial services, and necessitate government intervention to prevent economic crises (Scope, 2019).

In Singapore, the top-tier banks are classified as Domestic Systemically Important Banks (D-SIBs) by the Monetary Authority of Singapore (MAS), which include institutions like DBS Bank, OCBC Bank, and UOB. Banks classified as Domestic Systemically Important Banks (D-SIBs) are those deemed to have a substantial influence on the stability of the financial system and the effective operation of the wider economy. In Singapore, all banks undergo an annual evaluation by Monetary Authority of Singapore (MAS) to determine if they qualify as D-SIBs by taking into account factors such as their size, level of interconnectedness, substitutability, and complexity. The assessment framework is aligned with international standards set by the Basel Committee on Banking Supervision (BCBS, 2016).

When examining the banking sectors of Indonesia and Singapore, it becomes clear that each country presents distinct characteristics shaped by their unique

economic landscapes, regulatory frameworks, and market dynamics. Indonesia, with its vast population and growing middle class, offers a rapidly expanding banking market focused on financial inclusion and digital transformation. On the other hand, Singapore, as a global financial hub, boasts a highly developed and sophisticated banking sector known for its strong regulatory environment, innovation, and emphasis on wealth management and international banking services.

Indonesia's banking industry consists of conventional commercial banks, rural banks, and Islamic (sharia) banks. Conventional commercial banks hold the largest share, making up more than 95% of the sector's total assets. On the other hand, rural banks mainly serve smaller communities and have limitations on their activities. Then, sharia banks operate under Islamic financial principles, emphasizing profit-sharing investment schemes instead of interest-based loans. The banking sector is highly concentrated, with eight major banks, which are led by Bank Mandiri, BRI, BNI, and BCA. These 4 banks alone dominate about 60% of total banking assets, with extensive networks across Indonesia's vast archipelago and are critical to financial inclusion efforts (BCBS, 2016).

Banking activities in Indonesia are governed by two key institutions, namely Bank Indonesia (BI) and OJK (Otoritas Jasa Keuangan). Bank Indonesia (BI) is the central bank of the country, tasked with setting and executing monetary policy, ensuring financial system stability, and regulating the payment system. Founded based on Law No. 23 of 1999, BI functions independently from government interference, while also working together with other regulatory authorities to fulfill its mandates (BI, 1999). On the other hand, OJK or Otoritas Jasa Keuangan was formed under Law No. 21 of 2011 to ensure comprehensive regulation and oversight of all financial services sectors, such as banking, capital markets, insurance, and non-bank financial institutions. Its

responsibilities have grown following recent revisions to its legal framework, notably through Law No. 4 of 2023 (OJK, 2024a).

In terms of the banking industry performance and market condition during the past few years, Indonesian banks have shown resilience and growth despite macroeconomic pressures. In 2024, total banking assets reached Rp12,460 trillion, increased by 5.91% YoY, driven by state-owned banks dominating 50% of the market (CNBC, 2025). In terms of profitability, the Indonesian banking industry generated \$45.55 billion in net interest income in 2024, one of the highest among ASEAN countries. Furthermore, Financial and insurance services contributed IDR 869.17 trillion to Indonesian GDP in 2023 (Statista, 2024).

Moving into Singapore, the banking industry in this country is a cornerstone of its economy and a key driver of its status as a global financial hub. The sector is characterized by its stability, innovation, and robust regulatory framework, making Singapore the third-largest financial center in Asia, just behind Japan and Hong Kong. Singapore's banking sector consists of both local and foreign banks, with major domestic players namely DBS Bank, OCBC Bank, and UOB which hold a dominant position in the local market. These banks have strengthened their financial position and broadened their services by expanding regionally through mergers and acquisitions. Foreign banks also have a strong presence, with 29 holding full banking licenses and numerous others operating as wholesale or offshore banks (Pei, 2019).

The Monetary Authority of Singapore (MAS) regulates all banking operations within the country. It upholds strict governance standards through regulations such as the Banking Act of 1970 and other related guidelines. By prioritizing transparency, strong corporate governance, and investor trust, MAS has reinforced Singapore's standing as a reliable and secure financial center (Pei, 2019).

In 2023, Singapore's banking industry reached total assets of US\$2.63 trillion, demonstrating consistent growth fueled by its position as a leading global financial center. Over the last five years, the sector has experienced a compound annual growth rate (CAGR) of 5.5%. In terms of net interest income, Singapore does not state it comprehensively from all the banks that operates in the country, instead they only publish the net interest income from the top 3 banks, namely UOB, DBS, and OCBC. From these 3 banks alone, it generated \$24.5 billion in net interest income in 2023 (Twimbit, n.d.). In 2024, the sector expanded further by an impressive 6.5% year-on-year, supported by robust credit intermediation and increased transaction volumes (Singapore, 2024). Furthermore, Singapore's finance and insurance sector added around S\$87.84 billion to the nation's GDP in 2023, serving as a key engine of Singapore's economic growth (Statista, 2025).

Moving into selecting the specific banks for this research, each country already has its own top-tier banking groups, and it will be used as the main research objects for this research. Starting from Indonesia with its KBMI 4 (Kelompok Bank Berdasarkan Modal Inti 4) that consists of 4 banks, namely BRI (Bank Rakyat Indonesia), BNI (Bank Negara Indonesia), BCA (Bank Central Asia), and Bank Mandiri. Meanwhile, the Singaporean banks involved in this research based on the qualification of Domestic Systemically Important Banks (D-SIBs) consists of 3 banks, namely United Overseas Bank Limited (UOB), Oversea-Chinese Banking Corporation Limited (OCBC), and DBS Bank Limited. There is another term for these 3 banks, known as Three Major Local Banks.

The decision to focus on Indonesia and Singapore in this research is based on several compelling reasons that collectively offer a comprehensive and insightful comparative analysis within the context of sustainable finance and corporate sustainability performance in the banking industry. The selection of these two countries

provides an opportunity to explore varying dynamics, challenges, and strategies in sustainability adoption across contrasting economic and regulatory landscapes especially in Southeast Asia.

Firstly, Indonesia and Singapore represent two distinct economic conditions within the ASEAN region. Singapore is a high-income, developed nation with a mature financial sector, while Indonesia is a lower-middle-income, developing country with a rapidly growing banking industry. This contrast difference creates a valuable context to analyze how different stages of economic development may influence the adoption and implementation of sustainable finance practices, including Environmental, Social, and Governance (ESG) frameworks.

Despite differences in economic condition and maturity, Indonesia and Singapore are closely aligned in terms of banking sector metrics and statistics, such as total capitalization, asset size, and regional financial influence. Among ASEAN countries, they are two of the largest banking markets, making them particularly relevant for comparative study. Singapore is home to some of the region's most influential banks (e.g., DBS, OCBC, UOB), which possess significant cross-border operations and set benchmarks for sustainable finance in Asia. On the other hand, Indonesia's top banks (e.g., BNI, BCA, BRI, and Bank Mandiri) also command vast domestic and regional markets and hold substantial total assets and capital bases, comparable to some of their Singaporean counterparts.

Singapore has established itself as the regional leader in ESG and sustainable finance strategies, making it a benchmark country for sustainability practices in the banking sector. It has proactively developed comprehensive sustainability reporting standards, mandatory ESG disclosures, green taxonomy frameworks, and initiatives to integrate ESG factors into credit and investment decisions. Institutions like the Monetary Authority of Singapore (MAS) have spearheaded the adoption of

sustainability in finance by issuing clear guidelines and providing incentives for green finance products (Chung et al., 2022).

Conversely, Indonesia, while demonstrating growing interest in sustainable finance, still faces significant obstacles in ESG adoption. Indonesia's banking sector struggles with lack of standardized reporting tools, leading to inconsistent ESG disclosures (Mukti et al., 2025). Moreover, there is variability in the quality and comprehensiveness of sustainability disclosures among Indonesian banks. Other than that, socioeconomic challenges and differing stakeholder priorities contribute to slower ESG integration.

By selecting Indonesia and Singapore as the focus of this study, the research can yield a valuable comparative analysis that highlights the diverse dynamics of sustainable finance within Southeast Asia. This comparison underscores how different economic conditions, regulatory environments, and levels of ESG maturity influence the trajectory of corporate sustainability performance in the banking sector.

1.2 Background

In the last few decades, scientists and businesses have been highly concerned about preserving the environment along with using resources efficiently, improving the standard of human living, and advancing long-term economic competitiveness (Maier et al., 2020). This concern emerged because of the catastrophic consequences of climate change and environmental degradation, initiating the urgency for sustainability practices. The term 'Sustainability' itself is fairly a new concept, and it is important to understand that there are several definitions to explain this term. One of the definitions of Sustainability was presented as "Ensuring that the current needs are met without compromising the capacity of future generations to fulfill their own needs." in the

publication of Our Common Future by the United Nations in 1987. In another perspective, sustainability revolves around the concept that resources are limited and must be managed thoughtfully and responsibly to meet future requirements, while considering the impacts of using those resources (Hendratno et al., 2022).

In implementing sustainability, some multinational organizations and even major global institutions have developed their own agenda and plans for incorporating sustainability into society. One of the cornerstones in setting this agenda is the United Nations (UN) with the establishment of Sustainable Development Goals (SDGs) in 2015 as a comprehensive global framework to tackle social, economic, and environmental challenges by 2030. These goals are part of the broader 2030 Agenda for Sustainable Development, highlighting the interdependence of global issues and the necessity for collaborative efforts among nations (UN, n.d.).

Over the last decade, Sustainable Finance has appeared to be capturing a high level of interest as a crucial pillar of sustainable development (Zairis et al., 2024). In implementing sustainable finance, many fund managers now consider Environmental, Social, and Governance (ESG) factors when making investment decisions (Duuren et al., 2016). This paradigm shift in banking seeks to align financial institutions' operations with the broader objectives of sustainable development, particularly as outlined in the United Nations' Sustainable Development Goals (SDGs). Even though there is a growing interest in sustainable finance, some challenges are yet to be solved. Moreover, sustainable finance is more likely to be constraining factors in developing economies rather than developed economies (Jensen et al., n.d.).

Banks play a crucial role in facilitating sustainable finance through various mechanisms. They can engage in green lending, where loans are provided specifically for environmentally friendly projects such as renewable energy initiatives or eco-friendly infrastructure developments. Additionally, banks may issue green bonds,

which attract investors seeking to support sustainable activities while generating revenue for these projects (Vashisht, 2023). Sustainable finance signifies a shift in the banking industry towards greater awareness. It promotes the sustainable growth of the financial sector by integrating environmental, economic, and social considerations to foster a more sustainable economy (Yakovlev & Nikulina, 2019).

Shift in the banking industry towards sustainable finance is also prominent in the Southeast Asia region, particularly across ASEAN members. ASEAN central banks have prioritized sustainability through collaborative initiatives such as the ASEAN Green Map, a regional effort to standardize definitions of green finance and harmonize disclosure requirements. This framework encourages banks to integrate environmental and social risks into governance structures and product design, such as green loans and sustainability-linked bonds. However, the national policies of each country diverge widely, making the implementation of sustainable finance uneven. Singapore, for instance, has mandated TCFD-aligned climate reporting for listed and large non-listed companies starting in 2025, including Scope 1–3 emissions disclosures (WWF, 2017). In contrast, Indonesia and the Philippines still rely on voluntary guidelines from their financial authorities, resulting in inconsistent adoption of ESG practices (Community & Report, 2024; Mukti et al., 2025). Malaysia and Thailand have embedded sustainable finance into national development agendas, with explicit targets for funding green technologies and renewable energy projects (Community & Report, 2024; WWF, 2017). Meanwhile, less developed markets like Myanmar and Laos lack enforceable regulations, leaving sustainability efforts fragmented and dependent on ad hoc corporate initiatives (Community & Report, 2024).

Corporate sustainability reporting also has gained significant attention in the ASEAN region as businesses increasingly recognize the importance of transparency and accountability in their operations. This reporting framework serves as a vital

communication tool, enabling organizations to disclose their environmental, social, and governance (ESG) practices and performance to stakeholders. The current landscape of corporate sustainability reporting in ASEAN is characterized by a diverse array of practices and regulatory environments across member states. Countries such as Malaysia, Singapore, and Thailand have emerged as leaders in sustainability disclosure, demonstrating higher levels of reporting compliance compared to their counterparts like Indonesia and the Philippines. For instance, a study in 2018 revealed that the average disclosure rate across ASEAN countries is 59.2%, with Malaysia leads in the first place, achieving the highest level of sustainability disclosure among five ASEAN nations with 64.5%, closely followed by Singapore (61.7%) and Thailand (60%).

Between the 3 indicators (Economic, Environmental, Social Performance) that are used for measuring sustainability reporting among leading firms, Economic value generation had the highest disclosure, while areas like climate change impacts, human rights, philanthropy, and biodiversity had the lowest. Malaysia and Singapore demonstrated robust governance and reporting principles, underpinned by clear regulatory frameworks and stock exchange guidelines. On the other hand, Indonesia companies showed lower performance in disclosures, particularly in stakeholder engagement and materiality despite regulatory initiatives (e.g., POJK regulations) (Loh & Thomas, 2018).

Despite the progress made, there is currently no unified sustainability reporting framework across ASEAN. Each country has developed its own set of guidelines and requirements, often influenced by international standards such as the Global Reporting Initiative (GRI) and the Task Force on Climate-related Financial Disclosures (TCFD) (GRI ASEAN & Centre for Governance and Sustainability, 2022).

Furthermore, a review of existing literature indicates that sustainable finance within the ASEAN banking sector has been the subject of various studies. Prior research has primarily concentrated on the influence of sustainable finance on firm value, the development and compliance of sustainability reporting frameworks, and the extent of climate-related disclosures across ASEAN countries. However, several areas have still remained unexplored, particularly within the contexts of Indonesia and Singapore. Although Indonesia and Singapore have been featured in some comparative studies, there is an absence of focused research that evaluates corporate sustainability performance specifically within their banking sectors using a standardized and comprehensive framework like the GRI Standards. Previous studies have not systematically compared the sustainability performance of top-tier banks in both countries, nor have they examined how these institutions align their sustainability practices with global frameworks within a defined and recent timeframe.

This research, entitled "Sustainable Finance Dynamics on Banking Industry: Unveiling Corporate Sustainability Performance on Indonesia and Singapore," seeks to address these gaps by providing an in-depth comparative analysis of corporate sustainability performance among leading banking institutions in Indonesia and Singapore. By utilizing the GRI Standards as the primary framework for assessment, this study offers a more holistic evaluation of sustainability performance, encompassing economic, environmental, and social indicators that are relevant to the banking sector.

1.3 Problem Statement

1. How do banking institutions in Indonesia and Singapore compare in implementing Corporate Sustainability Performance based on key sustainability indicators?

2. What are the major similarities and differences in corporate sustainability practices between banking institutions in Indonesia and Singapore?
3. What patterns can be observed in the implementation of Corporate Sustainability Performance between banking institutions in developing and developed countries, particularly in Indonesia and Singapore?

1.4 Scope of Research

This research will focus on using the GRI Standards' framework to compare the Corporate Sustainability Performance between the Financial Institutions specifically top-tier banking institutions in Indonesia and Singapore between 2022-2024. The GRI Standards are recognized globally as the most comprehensive and widely adopted framework for sustainability reporting. As of recent years, thousands of organizations, including major financial institutions, utilize the GRI framework to disclose their environmental, social, and governance (ESG) performance in a transparent, consistent, and comparable manner (GRI, 2016). In both Indonesia and Singapore, regulatory bodies encourage or require banking institutions to include sustainability disclosures in their reporting activities that aligned with global standards like GRI to ensure standardized disclosures to meet investor expectations. Moreover, the study selects specific GRI indicators and disclosures that are most relevant to the banking sector's Corporate Sustainability Performance, with indicators such as environmental, economic, and social performance that are widely used by many institutions. Furthermore, the timeframe between 2022 to 2024 is strategically chosen because it represents the most recent and relevant data available, reflecting the current state of corporate sustainability practices in both Indonesia and Singapore's banking sectors. The Indonesian banks involved in this research are known as KBMI 4 that consists of PT Bank Rakyat Indonesia (Persero) Tbk., PT Bank Mandiri Indonesia (Persero) Tbk.,

PT Bank Central Asia Tbk., and PT Bank Negara Indonesia (Persero) Tbk. Meanwhile, the Singaporean banks involved in this research are known as Three Major Local Banks that consists of United Overseas Bank Limited (UOB), Oversea-Chinese Banking Corporation Limited (OCBC), and DBS Bank Limited.

1.5 Objective of Research

1. To analyze and compare the implementation of Corporate Sustainability Practices in banking institutions in Indonesia and Singapore based on key sustainability indicators.
2. To identify the similarities and differences in Corporate Sustainability Performance between banking institutions in Indonesia and Singapore countries.
3. To describe observable patterns in corporate sustainability implementation in banking institutions between a developing country (Indonesia) and a developed country (Singapore).

1.6 Research Benefits

a. Theoretical Recommendations:

The theoretical recommendation of conducting this research is to provide the readers with insights regarding how Indonesian and Singaporean banking insitutions implement sustainable finance specifically on corporate sustainability performance. It is hoped that the readers also include Investors so that they can gain insights into the sustainability practices of financial

institutions in Singapore and Indonesia, helping them make more informed investment choices that align with their values and long-term financial goals.

b. Practical Recommendations:

The practical recommendation for conducting this research is for financial institutions and governments. Financial institutions can use this research to benchmark their sustainability practices against those of their counterparts in the region, identifying areas for improvement and best practices to adopt. Other than financial institutions, governments can use the findings to assess the effectiveness of current regulations and policies related to corporate sustainability and identify areas where improvements are needed to encourage more sustainable practices within the financial sector.

