

THE IMPLEMENTATION OF FINANCIAL SUSTAINABILITY AT ALLO BANK INDONESIA - OPPORTUNITIES AND CHALLENGES

Iswibowo

Perbanas Institute

Dewa Ayu Ruth Pramyswary*

Perbanas Institute

*Corresponding Author: dewa.ayu84@perbanas.id

A. Dewantoro Marsono

Perbanas Institute

Abstract – Since the implementation of Sustainable Finance (POJK No. 51/POJK.03/2017), PT Allo Bank Indonesia, Tbk, a digital service-based bank in Indonesia, has adopted the concepts into their business. This paper discusses Allo Bank Indonesia's strategy to overcome challenges by implementing sustainable finance, which involves changing their business model to branchless banking based on digital services. A qualitative research method was used to explore the bank's activities and analyzed using the SWOT analysis approach. The result shows that Allo Bank Indonesia has successfully implemented sustainable finance, but there is room for improvement in their implementation

Keywords: Sustainable Finance, Banking Industry, Digital Bank

I. INTRODUCTION

Sustainable Finance represents comprehensive support from the financial services sector in fostering sustainable economic growth by aligning economic, social, and environmental interests (Peraturan Otoritas Jasa Keuangan No. 51/POJK.03/2017). In order to facilitate the implementation of sustainable finance, the Financial Services Authority (OJK) has issued several regulations

mandating banks to develop Sustainable Financial Action Plans (RAKB) and submit Sustainability Reports annually, starting from January 2019. As a result, all banks in Indonesia share the obligation of integrating sustainable finance concepts into their banking operations.

In response, PT Allo Bank Indonesia, Tbk. (Allo Bank) also endeavors to implement several initiatives aimed at supporting sustainable financial practices. Some of these initiatives include transitioning from a conventional bank model to a digital bank, adopting the 3R policy (Reduce, Reuse, & Recycle), implementing energy and water conservation practices, as well as waste management strategies (Annual Report Allo Bank, 2021-2022). These efforts have been documented in the Bank's Business Plans for the years 2021 and 2022, which outline the Sustainable Financial Action Plans (Rencana Aksi Keuangan Berkelanjutan/RAKB), as well as in the Annual Reports for the periods 2021 and 2022, which feature the Sustainability Financial Reports.

However, while executing its sustainable financial strategy, Allo Bank still encounters certain challenges. These challenges include limited awareness among human resources regarding social and environmental issues, inadequate comprehension of regulations concerning sustainable finance, as well as the incomplete categorization of businesses that are conducive to the implementation of sustainable development thus posing challenges in channeling credit to sustainable

business sectors. These factors pose obstacles to the implementation of sustainable finance practices within Allo Bank.

Similar challenges also reverberate across other financial institutions in other countries. Research by Kumajas et al. (2022) showed that member countries of the ASEAN Exchange contend with eight challenges in the realm of sustainable finance implementation. These challenges encompass matters of financial inclusion, regulatory frameworks, insufficiencies in the dissemination of sustainable finance and divergent stakeholder perceptions, disclosure of sustainable reports, financial performance concerns, complexities in harmonizing economic, social, and environmental facets, credit provision procedures, and technological interventions. Furthermore, research by Chenguel & Mansour (2023) notes the absence of financial incentives accrued to corporations engaged in green financing as a challenge to the implementation of sustainable finance in China. The previous research showed that there are several challenges to implement sustainable finance.

This research aims to explore the application of sustainable finance within Allo Bank, encompassing the opportunities and challenges faced by the bank. Furthermore, the research will formulate strategic steps that Allo Bank can undertake to enhance the integration of sustainable finance practices.

II. METHODS

The study employs a qualitative approach in the form of a case study investigating the implementation of sustainable finance at Allo Bank. Data collection methods involve direct observations of Allo Bank's operations, interviews with subject matter experts, and a review of relevant literature pertaining to sustainable finance implementation at Allo Bank. The analyzed dataset pertains to the implementation of sustainable finance at Allo Bank during the period from 2020 to 2022.

Data analysis utilizes a SWOT analysis framework to assess the sustainable finance implementation carried out by Allo Bank. To ensure the accuracy and validity of the analyzed data, data triangulation was conducted through interviews with subject matter experts, specifically involving Allo Bank's CEO, Indra Utoyo. This approach aimed to corroborate the findings and enhance the credibility of the research outcomes. The research framework as shown on Figure 1.

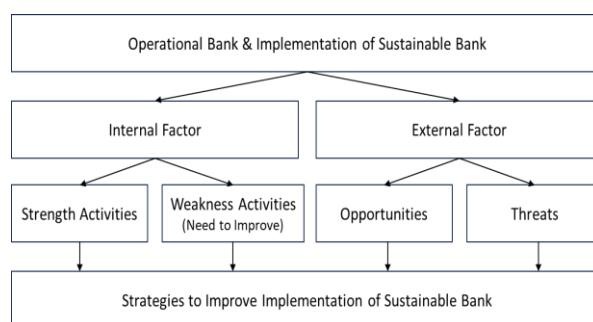


Figure 1. Research Framework

III. RESULTS AND DISCUSSION

RESULT

Based on observations, the following sustainable finance practices have been implemented by the company:

Business Model Transformation to Digital Bank

Allo Bank started business model transformation from conventional banking to digital banking since 2021. This involved transferring several conventional assets to other companies within the Bank Business Group, resulting in a significant reduction in the number of branches from 16 branches to only 2 branches. By minimizing branches and ATM networks, and is focusing on developing systems and technology to provide digital banking services and enhance customer experience through Allo Bank application, the company has been able to reduce operational costs from 82% (2021) to 60% (2022) of

operational revenue (PT Allo Bank Indonesia Tbk., 2022).

Triple R (Reduce, Reuse, Recycle) Strategy

The implementation of the 3R strategies includes reducing paper usage and encouraging employees to use waste paper. When papers are no longer usable, they are shredded and recycled. Allo Bank also employs electronic signature solutions, such as DigiSign, to minimize the need for paper-based signatures and reduce printing, shipping, and storage costs. Digital Sharing Folders have been introduced to promote digital document production, thereby reducing the use of printed documents. By implementing 3R strategies, Allo Bank successfully reduced paper consumption, from 417 reams (2021) to 395 reams (2022) (PT Allo Bank Indonesia Tbk., 2022).

Energy Consumption Reduction

To reduce energy consumption, the company has implemented various measures. These include using energy-efficient LED lamps, turning off lights and air conditioning after office hours, and reducing the number of electronic equipment such as printers. Moreover, the company has implemented strict controls and monitoring of fuel usage for operational vehicles, leading to reduced fuel expenses from Rp 312.46 million (2021) to Rp 219.78 million (2022) (PT Allo Bank Indonesia Tbk., 2022).

Water Conservation

By reducing the number of branches and emphasizing wise water use, Allo Bank can successfully reduce water expenses from Rp 30.33 million (2021) to Rp 12.07 million (2022) (PT Allo Bank Indonesia Tbk., 2022).

Waste Management

In terms of waste management, the company has taken steps to reduce plastic waste by replacing single-use plastic bottles with glass pitchers for drinking water. For the disposal of waste to the final disposal site, the Bank collaborates with a third party, which will manage the waste before remove it to the final disposal site (PT Allo Bank Indonesia Tbk., 2022).

Financing to Sustainable Sectors

In addition to these sustainability practices, Allo Bank has focused on financing sectors included in the Sustainable Business Activity Category (Kredit Kegiatan Usaha Berkelanjutan). Allo Bank began channeling financing to KKUB sectors in 2021, with a credit portfolio of IDR 745 billion, and has continued to grow, reaching IDR 1.9 trillion by the end of 2022, constituting 27% of the total credit portfolio. The distribution to the KKUB sector had an impact on the incentivization of the reserve requirement (GWM) by BI, so that the GWM formed by the company was reduced from 9% to only 8.4%. However, this green portofolio has not been disclosed in the Sustainability Report as required by OJK.

Environmental Allocations

In 2022, the company allocated Rp 23.92 million for environmental CSR initiatives, including bamboo tree planting (PT Allo Bank Indonesia Tbk., 2022).

Equal Employment Opportunity

The company provided equal opportunities for men and women, with women comprising 39% of the total workforce (262 employees), up from 33% (129 employees) in 2021 (PT Allo Bank Indonesia Tbk., 2022).

Sustainable Finance Awareness Development

The company conducted training on Sustainable Financial Action Plans for executive officers in 2022 (PT Allo Bank Indonesia Tbk., 2022).

In conclusion, Allo Bank has undertaken a series of comprehensive sustainable finance practices to align its operations with principles of environmental responsibility, resource efficiency, and social equity. These practices encompass a shift towards digital banking, adoption of the 3R strategy, reduction in energy and water consumption, waste management, increased financing for sustainable sectors, environmental allocations, promotion of gender equality in employment, and efforts to raise awareness about sustainable finance among employees. These endeavors reflect the company's commitment to advancing sustainable finance principles,

which not only contribute to positive environmental and social impacts but also enhance operational efficiency and customer experience. By implementing these practices, the company has positioned itself as a proactive player in the realm of sustainable banking, poised to address present and future challenges related to sustainability while fostering responsible growth and development.

DISCUSSION

SWOT Analysis

Based on the SWOT (Strength, Weakness, Opportunity and Threat) analysis of the implementation of sustainable finance at Allo Bank, the following points are known:

Strengths

Allo Bank's shift to digital bank plays significant role to strengthen implementation of sustainable finance in Allo Bank. This include digital transformation, environmental impact, paperless operations and efficiency improvement.

Firstly, Allo Bank's transition to a digital bank with branchless banking reduces customer mobility and reliance on physical branches. Since the customers no longer need to go to the bank's branches, this reduces the fuel emissions from customer vehicles and results in energy and cost savings.

Secondly, digital transformation lead to the reduction in branch usage. This results in lower energy consumption, particularly from non-renewable sources like coal-based power plants, thereby reducing the bank's carbon emissions.

Thirdly, digital transformation also lead bank to paperless operations. The adoption of digital signatures and digital file storage minimizes paper usage. This aligned with sustainability goals and promoting environmental conservation.

Besides, digitalization process also improved efficiency. The implementation of Robotic Process Automation (RPA) for transaction monitoring streamlines processes and enhances efficiency. Its reduce the need for time-consuming manual work which results in energy savings.

Weakness

However, there are weaknesses in Allo Bank's implementation of sustainable finance. The main issues is the company lacks understanding and awareness of social and environmental issues. This resulting in a lack of practical and tangible sustainable finance programs in their budget and strategy, unaware to report their lending to sustainable business sectors in the Sustainability Report, and the operations still primarily focus on cost reduction rather than sustainable finance development such as through CSR programs, that may hinder long-term growth and commitment to environmental and social responsibilities.

Additionally, there is limited human capital involvement. There is no training or education provided to all employees regarding sustainable finance programs, mainly limited to the executive officers. Besides, there is inadequate alignment of employee incentives with sustainable finance goals, which shows a lack of integration of sustainability principles.

Furthermore, the company's buildings still use outdated technology without prioritizing the use of renewable energy.

Opportunities

Allo Bank can enhance its implementation of sustainable finance by considering several external opportunities, such as consumer demand, sustainable financing demand, and government supports.

Firstly, there is an increased consumer demand for environmentally friendly and socially responsible products and services. Consumers are becoming more aware of environmental and social issues and are inclined to choose companies that implement sustainable finance practices. This presents an opportunity for Allo Bank to attract new customers and retain existing ones by offering products and services that have a positive impact on society.

Secondly, there is an increased access to sustainable finance in Indonesia. The demand for financing sustainable projects is rising, as evidenced by the issuance of green bonds, green sukuk, and financing disbursements from financial institutions that focus on

funding sustainable initiatives. This opens avenues for Allo Bank to expand its offerings to support & financing sustainability projects.

Additionally, the government of Indonesia has implemented policies and regulations that support sustainable finance. The establishment of regulations on green bonds and green sukuk provides direction and guidance for companies like Allo Bank to implement sustainable finance practices. The government also offers various incentives for companies that practice sustainable finance, such as human resource competency development programs and awards for sustainable finance excellence. Furthermore, the Bank of Indonesia (BI) facilitates the establishment of minimum reserve requirements (Giro Wajib Minimum/GWM) for banks that channel financing to the priority sector and inclusive financing.

Threats

Despite the aforementioned opportunities, the implementation of sustainable finance is also faced with challenges from external parties. This include regulatory uncertainty and incentive imbalance.

One challenge is the lack of clear regulations and guidelines related to sustainable finance. For example, the rules for determining ESG Star Listed Company by the Indonesia Stock Exchange (IDX) and the incentive rules related to Risk Weighted Assets (RWA) from the Financial Services Authority (OJK) are still unclear. The absence of clear definitions and categorizations for sustainable businesses also poses difficulties for companies to understand and meet the requirements, hindering the implementation of sustainable finance.

Similar challenges also encountered in green sukuk market at Malaysia. Keshminder, Abdullah & Mardi (2022) mentioned that difficulty in identifying green assets, it is time-consuming and costly, no compelling benefits and exposure to higher-risk profiles are the challenges of sukuk market in Malaysia. Therefore, government should provide clear guideline to define and categorize sustainable business in order to robust the implementation of sustainable banking.

Furthermore, the government's rewards and incentives are not sufficient to incentivize companies to adopt sustainable finance practices. Although tax incentives have been introduced for companies investing in sustainable projects, these incentives do not apply to banks, despite their significant contributions to reducing carbon emissions. Allo Bank, for example, reduces carbon emissions through implementing technology that supports digital service-based banking applications and through lending to the sustainable business sector. It is recommended that the government extend tax incentives to banks that contribute to reducing carbon emissions.

Based on research by Hashim et al. (2016) in Malaysia the government has provided tax incentives for buildings classified as green buildings. Similar fiscal incentives can also be developed in Indonesia. The tax incentives should not only be given to companies with green buildings but also to companies that are able to reduce the use of buildings, considering both of these have an impact on reducing carbon emissions from the use of non-renewable energy.

Strategies to Improve Implementation of Sustainable Bank

The result of SWOT (Strength, Weakness, Opportunity and Thread) analysis showed that Allo Bank's transition to a digital banking model has contributed positively to the implementation of sustainable finance and resulting in energy and cost savings. However, there are weaknesses in the company's approach, including a lack of understanding and awareness regarding sustainable finance, and employee involvement in social environment.

To enhanced the implementation of sustainable finance, Allo Bank can provide comprehensive education and training to all employees regarding the principles and benefits of sustainable finance. This can involve incorporating the concept of sustainable finance into the company's corporate values and making it as a part of employee performance assessment.

To actively monitor and promote sustainable finance within the organization, Allo Bank can establish a dedicated work unit. This unit can be responsible for raising awareness about sustainable finance among employees, organizing training programs, and creating initiatives that encourage employee participation in sustainable finance practices. These initiatives could include recognizing and rewarding divisions that reduce paper usage or giving awards (for example: ESG Staff Star) to employees who actively engage in corporate social responsibility programs. This unit also responsible to design CSR programs that align with sustainable finance goals, such as mangrove planting for carbon reduction and coastal protection.

The success of incorporating sustainable finance into corporate values and KPIs has been demonstrated by PT Bank Central Asia, Tbk. (BCA), one of the pioneering sustainable banks in Indonesia. Following the implementation of these measures, BCA has been able to increase the distribution and development of green products, expand its CSR programs, and raise employee awareness of social and environmental issues (PT Bank Central Asia Tbk, 2021-2022). Similar steps taken by Allo Bank can lead to improved implementation of sustainable finance principles in its operations.

Furthermore, Allo Bank can enhance its sustainable finance practices by adopting renewable energy sources in its operations. This can include using electric vehicles for transportation, installing LED lights throughout the bank's facilities, implementing sensor-based automatic water taps to conserve water, and employing wastewater reuse systems to minimize wastage.

To create a positive image and demonstrate its commitment to environmental and social issues, Allo Bank should make its sustainable finance programs more transparent and accessible. This can be accomplished by providing comprehensive information on these programs on the company's website and regularly reporting on its Sustainability Report and Sustainable Finance Action Plan to the relevant regulatory bodies.

By implementing these measures, Allo Bank can strengthen its sustainable finance initiatives, improve its environmental impact, and showcase its dedication to societal and ecological concerns.

IV. CONCLUSION

This paper has centered around the SWOT analysis of Allo Bank's sustainable finance implementation. This analysis has highlighted the bank's strengths in digital transformation, energy efficiency, and process automation. However, there are acknowledged weaknesses in terms of awareness, strategy, reporting, and employee involvement. The opportunities lie in catering to consumer demand, leveraging the growing sustainable finance market, and capitalizing on government support and incentives. Despite these prospects, the challenges include regulatory uncertainty and the need for more attractive incentives to promote sustainable finance engagement.

To address these aspects, Allo Bank can focus on raising awareness among its employees by providing comprehensive education and integrating sustainable finance principles into its company values and performance metrics. Establishing a specialized unit to monitor and promote sustainable finance practices could lead to more proactive initiatives, fostering a culture of sustainability throughout the organization. The bank should also consider investing in renewable energy practices, implement innovative methods to reduce environmental impact, and actively report their sustainable finance programs to enhance transparency and reputation.

The government also play a crucial role in promoting and supporting the implementation of sustainable finance practices. Firstly, the government can establish clear and comprehensive regulations and standards, which define key concepts, reporting requirements, and incentives to encourage financial institutions to involve in sustainable finance. Secondly, the government can offer financial incentives, such as tax breaks or

subsidies, to banks and financial institutions that actively embrace and promote sustainable finance initiatives. Thirdly, similar to the ESG Staff Star and Sustainable Finance Award mentioned in the text, the government can institute awards and recognition programs for financial institutions that demonstrate exceptional commitment to sustainable finance.

This research limited to implementation of sustainable bank in Allo Bank. further research can analyze implementation of sustainable finance in other sectors, include banks, multi-finance, fintech company, etc. Further research could also be done in greater area, other territory/region.

REFERENCES

- Chenguel, M. B., & Mansour, N. (2023). Green finance: between commitment and illusion. *Competitiveness Review*. <https://doi.org/10.1108/CR-10-2022-0162>
- Hashim, S. Z., Zakaria, I. B., Ahzahar, N., Yasin, M. F., & Aziz, A. H. (2016). Implementation of green building incentives for construction key players in Malaysia. *International Journal of Engineering and Technology*, 8(2), 1039–1044.
- Keshminder, J. S., Abdullah, M. S., & Mardi, M. (2022). Green sukuk – Malaysia surviving the bumpy road: performance, challenges and reconciled issuance framework. *Qualitative Research in Financial Markets*, 14(1), 76–94. <https://doi.org/10.1108/QRFM-04-2021-0049>
- Kumajas, L. I., Saerang, D. P., Maramis, J. B., Dotulong, L. O. H., & Soepomo, D. (2022). Kontradiksi sustainable finance: Sebuah literatur review. *Jurnal EMBA*, 10(2), 1034–1041. <https://ejournal.unsrat.ac.id/index.php/emba/article/view/41356>
- Peraturan Otoritas Jasa Keuangan. (2017). *POJK No. 51 /POJK.03/2017 tentang penerapan keuangan berkelanjutan bagi lembaga jasa keuangan, emiten, dan perusahaan publik*. 1–15.
- Otoritas Jasa Keuangan. (2019). *Overview Implementasi Kebijakan Keuangan Berkelanjutan di Indonesia*. Jakarta.
- Otoritas Jasa Keuangan. (2020). *Roadmap Keuangan Berkelanjutan Tahap II(2021-2025)*. Jakarta.
- Otoritas Jasa Keuangan (2019). *Tata Kelola Aspek Resiko Sosial dan Lingkungan*. Jakarta.
- PT Allo Bank Indonesia Tbk. (2022). *Annual Report*. <https://hanoman.allobank.com/>
- PT Bank Central Asia Tbk. (2021). *Live to Engage*. 142.
- PT Bank Central Asia Tbk. (2022). *Live to Impact*. 168.