

ESG Performance of Chinese Commercial Banks

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Abstract: As a core component of China's financial system, the banking industry is crucial for economic development. As a leading institution in the Chinese financial sector, commercial banks can actively promote the ESG development of Chinese enterprises by leveraging their ESG performance. This study selected the top three commercial banks in China's ESG rating rankings, including the Industrial and Commercial Bank of China, China Construction Bank, and Postal Savings Bank of China, to conduct a detailed analysis of their published ESG reports and social responsibility reports. The purpose is to extract the practical experience of these banks in ESG governance and provide a reference for other banks in the same industry.

Keywords: Commercial Bank of China; Environment; Society; Governance

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1. Research background

China's sustained and stable economic growth has driven a significant increase in national income levels, thereby promoting the rapid development of the banking industry. The number and types of banking and financial institutions are constantly increasing, meeting diverse and multi-level financial needs. Wang Wudi et al. found that in this context, the potential impact of bank bankruptcy is not limited to customers, but may also have serious consequences for the stable operation of the real economy ^[1]. Therefore, there has been significant disagreement in both academic and practical circles regarding whether governance failure has led to excessive risk-taking by banks. In the latest literature on risk governance, Sun Na et al. proposed that a governance structure centered on shareholder equity may exacerbate the risk-taking of banks, thus requiring additional risk prevention and control mechanisms to protect the interests of other stakeholders ^[2]. Among them, Environment, Society, and Governance (ESG) is considered a potential risk prevention and control mechanism that can better balance the interests of investment and non-investment stakeholders in bank decision-making. Therefore, bank governance based on ESG is highly aligned with Freeman's stakeholder perspective on ESG activities, which suggests that ESG should enhance stakeholder satisfaction to

improve the financial performance of banks. Meanwhile, Yu Jiaxin believes that the development of ESG in Chinese enterprises cannot be separated from the support of the financial sector^[3]. Financial institutions prioritize the ESG performance of enterprises in loan financing, which can effectively enhance the ESG construction enthusiasm of Chinese enterprises. The Chinese government and financial institutions are gradually realizing the strategic importance of ESG financing and taking corresponding measures.

2. Literature review

2.1. ESG system

Regarding the ESG system, existing literature suggests that it consists of two parts: ESG disclosure and ESG rating.

ESG disclosure refers to the need for companies to disclose environmental, social, and governance aspects. Chen Yanling et al. believe that ESG disclosure can be divided into mandatory and voluntary disclosure^[4]. Currently, ESG information disclosure by Chinese commercial banks still belongs to voluntary information disclosure, which means enterprises decide whether to disclose, which information to disclose, and how to disclose it on their own. ESG rating refers to the rating score of a third-party rating agency on the information integrity and practical performance of a company after disclosing environmental, social, and governance information^[5].

2.2. ESG rating system

To fulfill their financial functions, commercial banks need to establish a scientific and effective evaluation system for ESG performance. Wang Shao et al. argue that, unlike traditional financial evaluation frameworks, the ESG rating system mainly evaluates the performance of enterprises in the fields of environment, society, and corporate governance^[6]. This requires commercial banks to take responsibility and demonstrate commitment to the environment, society, and governance. Internationally renowned ESG rating agencies include MSCI, S&P Dow Jones, Thomson Reuters, Morningstar, and so on, while Chinese ESG rating agencies include Huazheng, CSI, Shangdao Ronglv, Jiashi, and Social Investment Alliance. Although these institutions rate enterprises based on the three dimensions of environmental, social, and corporate governance (ESG), there are differences in the rating results, reflecting some shortcomings of the existing ESG rating system.

On the one hand, the ESG rating system needs to be more industry-specific. Different industries need unique evaluation indicators. Duan Mingyang found that high energy-consuming industries need more green transformation indicators, and Internet enterprises may need new user privacy and data security indicators^[7]. Therefore, evaluation indicators and aggregation rules should be customized according to industry characteristics, and more indicators and weights should be set. In China, as an important financing channel, commercial banks have significant differences in their ESG rating system compared to other types of enterprises. Guo Xiaojie et al. believe that improving ESG performance for commercial banks not only requires attention to their practices but also needs to consider meeting the ESG financing needs of the market^[8]. Banks support market-oriented ESG development financing needs by issuing green bonds and social bonds, enhancing sustainable development capabilities, and achieving harmonious integration of social value and market value.

On the other hand, domestic and foreign ESG rating systems have not fully adapted to local practices in China. Wen Xin believes that international rating agencies such as MSCI did not fully

consider the social issues emphasized by the Chinese government, such as targeted poverty alleviation and rural revitalization, as well as governance issues such as anti-corruption when evaluating the ESG performance of Chinese commercial banks ^[9].

Therefore, China needs to establish a more comprehensive “localized” ESG rating system for the banking industry. By constructing an ESG performance evaluation index system for the banking industry, the management ability of sustainable risks and opportunities for banks can be objectively evaluated, reflecting the progress of ESG development in China’s banking industry. At the same time, rating agencies also need to ensure the comparability of ESG ratings across different industries, so the existing rating system still needs further improvement.

3. Construction of ESG rating system for commercial banks

The ESG rating system of commercial banks aims to comprehensively consider key issues recommended by the United Nations and ESG reporting organizations, China’s policy background, and specific ESG challenges in the banking industry. Commercial banks play a core role in the Chinese financial system, not only implementing national macroeconomic policies but also fulfilling social responsibilities with Chinese characteristics, promoting the development of ESG practices with Chinese characteristics in various industries.

In the environmental (E) dimension, the core issues faced by banks include environmental and climate risk management, reducing their carbon emissions, achieving operational carbon peak and carbon neutrality, and supporting the green and low-carbon transformation of the economy and society. Lan Kexiong believes that the performance of green finance is evaluated by the scale of green credit, the issuance and investment scale of sustainable development bonds, and the innovation of green finance products ^[10]. Green credit not only involves financial support for green enterprises and new energy projects but also includes investment restrictions on environmental risk enterprises. At the same time, the environmental impact of bank investment and financing activities is also an important factor in evaluating their environmental performance.

In the social (S) dimension, commercial banks need to bear more social responsibilities and pay attention to the social and public interests of the general public and employees. Wang Siyao believes that tax contributions and employment creation reflect the social benefits of banks. Employee career development, safety and health, compensation and benefits, and fair employment are the core concerns of banks ^[11]. In terms of the special responsibilities of banks, it is also necessary to consider their role in implementing national policies and pay attention to their response to national policies, such as common prosperity, rural revitalization, and inclusive finance.

In the dimension of governance (G), good corporate governance of commercial banks is a requirement for implementing national financial policies, as well as the foundation for ensuring the stable operation of banks and achieving sustainable value growth. Pang Jinhua believes that the ESG governance system and organization, as well as the quality of ESG information disclosure, are the focus of attention ^[12]. The improvement of the ESG governance framework and functions of banks, including the establishment of specialized organizations or departments at the board level and manager level. ESG information disclosure serves as a bridge between listed commercial banks and investors and should adhere to the principles of authenticity, accuracy, completeness, timeliness, and fairness. In terms of governance systems, attention should be paid to governance structure, compliance, and risk

management, and a sound risk management system should be established.

4. The current development status of ESG in Chinese commercial banks

This article selects the three most representative banks in China, including the Industrial and Commercial Bank of China, China Construction Bank, and Postal Savings Bank of China, to explore their ESG disclosure situation, aiming to improve the ESG performance of the banking industry.

4.1. Environmental dimensions of ESG disclosure reports

Environmental issues cover climate risk management, green finance practices, and low-carbon operations of banks themselves.

In terms of climate risk management, the actions of the banking industry can be traced back to the Equator Principles in the early 21st century. He Huan pointed out that the Equator Principles were developed by the International Finance Corporation of the World Bank Group to help banks identify and manage social and environmental risks ^[13]. The study found that all three banks provided disclosure of climate-related information in their reports. Postal Savings Bank and China Construction Bank have also released environmental information disclosure reports, but the coherence and completeness of information disclosure need to be improved. These banks have incorporated climate-related risks into their overall risk management and considered their connection with other major risks. They also stated that climate factors have been incorporated into credit assessment and monitoring processes, and discussed the credit risks that climate change may lead to. All three banks have stated that they are developing climate-related scenario analysis and participating in climate stress testing, but the disclosed information is limited and mainly qualitative.

In terms of green finance practice, green finance refers to financial services provided for economic activities in areas such as environmental protection and energy conservation. Industrial and Commercial Bank of China and China Construction Bank have performed well in green finance information disclosure, while Postal Savings Bank needs to further improve its information disclosure. Nevertheless, all three banks are contributing to the “dual carbon goals” by providing financial products and services to support the green sector.

In terms of green operations, the Industrial and Commercial Bank of China and China Construction Bank apply high-tech for low-carbon innovation, such as carbon footprint management and energy-saving technology, and focus on cultivating employees’ environmental awareness. Postal Savings Bank lacks information disclosure in this regard. Overall, the banking industry still needs to strengthen its support for green transformation and the greening of its operations.

4.2. Social dimensions of ESG disclosure reports

Social issues focus on public welfare investment, employee training, and employee health. In terms of public welfare investment, the Industrial and Commercial Bank of China has cooperated with over 2000 public welfare organizations to provide financial services and developed the “Public Welfare Charity Cloud Platform” to solve the difficulties encountered by local charitable organizations in public welfare projects and improve the transparency of the charity industry. The Construction Bank encourages employees to participate in volunteer activities and has established comprehensive employee public welfare training. The Postal Savings Bank did not mention any relevant information in its ESG disclosure report, and the information disclosure in these areas is insufficient and needs to

be strengthened.

In terms of employee training, the Industrial and Commercial Bank of China has developed differentiated training strategies to accurately grasp the training needs of talents at all levels and types. Zhang Tong pointed out that the Industrial and Commercial Bank of China actively constructs a group talent training system and optimizes employee promotion rules^[14]. Construction Bank has established dual channels for management position sequence and professional technical position sequence, clarifying the job system of each position, and allowing all employees to achieve career development within or across channels. Postal Savings Bank implements precise hierarchical and classified training, using a community-based operation management model and points management system to help new employees quickly integrate into the corporate culture.

In terms of employee health, the Industrial and Commercial Bank of China has enhanced the comprehensiveness and pertinence of employee physical examination programs, and increased efforts to ensure employee health. In addition, they also pay attention to the mental health of employees and use scientific methods to help them relieve stress. Construction Bank provides health examination benefits and mental health support, including psychological counseling services and training for mental health liaison officers. In addition, China Construction Bank actively supervises employees to regularly check their physical health and provides annual health checkups and heatstroke prevention and cooling fees for all employees. Postal Savings Bank focuses on employee safety education but has not disclosed specific information on physical examination benefits and psychological counseling.

4.3. Corporate governance dimensions of ESG disclosure reports

Industrial and Commercial Bank of China continuously optimizes corporate governance by strengthening top-level design and implementing the Company's Articles of Association (2022 Edition), improving governance mechanisms, and showcasing governance achievements. Construction Bank strengthens anti-corruption efforts, publicly discloses key points of its anti-bribery system, distributes employee compliance manuals, and regulates behavior. Yang Peixuan et al. pointed out that by analyzing employee behavior and monitoring abnormal fund transactions, implementing strict management can promote business health^[15]. Postal Savings Bank follows the principle of simplicity and clarity, enriches disclosure forms, promotes voluntary information disclosure standardization, expands disclosure breadth and depth, protects investor rights and interests, enhances transparency, optimizes information disclosure management, reviews and revises systems, standardizes information transmission, improves reporting efficiency, and strengthens management of insider information and insiders.

5. Summary

Overall, the Industrial and Commercial Bank of China, the Construction Bank of China, and the Postal Bank of China have actively formulated green development strategies based on their advantages and actual situation. However, in terms of ESG information disclosure, especially in environmental information disclosure, further improvement is needed to enhance the transparency and reliability of capital flow towards green industries. In terms of social issues, the social responsibility disclosure of the three banks is insufficient, and there is inconsistency in the definition of different themes, such as differences in the disclosure of employee health benefits. In addition, problems such as insufficient data disclosure, hollow report content, and inconsistent quality are also common. In terms of corporate

governance, there is a lack of data support and further enrichment of content, which may be related to the lack of a unified reporting framework and measurement indicators, making it difficult to conduct effective comparative analysis.

Disclosure statement

The author declares no conflict of interest.

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