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The Implementation of Financial Sustainability at Allo Bank Indonesia - Opportunities and Challenges

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ABSTRACT
This research delves into the strategic adoption of Sustainable Finance (POJK No. 51/POJK.03/2017) by PT Allo Bank Indonesia, Tbk, a leading digital service-based bank in Indonesia. The study focuses on the challenges faced by the bank and outlines its strategy to overcome them through the implementation of sustainable finance principles. Specifically, the bank has transitioned its business model to embrace branchless banking, emphasizing digital services. Employing a qualitative research methodology, this study investigates the activities of Allo Bank Indonesia and utilizes the SWOT analysis approach for a comprehensive analysis. The findings reveal the successful integration of sustainable finance practices by the bank; however, there exists potential for further enhancement in their implementation.

INTRODUCTION

Sustainability Finance represents comprehensive support from the financial services sector in fostering sustainable economic growth by aligning economic, social, and environmental interests (Abubakar & Handayani, 2019; Azman, 2019; Setyowati, 2023; Yakovlev & Nikulina, 2019). 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

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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 (2024) 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 implementing 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.

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.

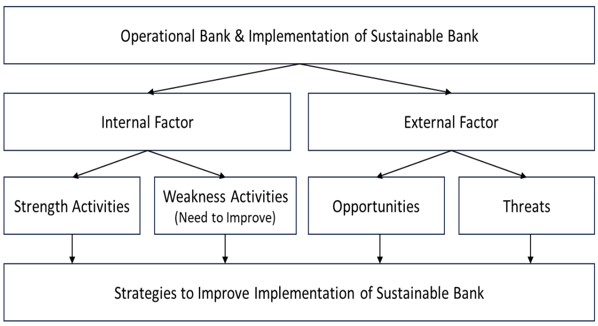

Figure 1. Research Framework

RESULTS

Business Model Transformation to Digital Bank

Allo Bank started a business model transformation from conventional banking to digital banking in 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 to only 2. By minimizing branches and ATM networks and focusing on developing systems and technology to provide digital banking services and enhance customer experience through the 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 wastepaper. When papers are no longer usable, they are shredded and recycled. Allo

Bank also employs electronic signature solutions, such as Digi Sign, 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 removing 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 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 the 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 (Hermawati et al., 2023; Najam et al., 2022; Salim et al., 2023; Utama et al., 2024).

Discussion

SWOT Analysis

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

Strengths

Allo Bank's shift to digital banking plays a significant role in strengthening the implementation of sustainable finance in Allo Bank. This includes 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 leads to a 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 leads banks 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, the digitalization process also improved efficiency. The implementation of Robotic Process Automation (RPA) for transaction monitoring streamlines processes and enhances efficiency. It reduces 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 issue is the company lacks understanding and awareness of social and environmental issues. This resulted 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 (Atichasari et al., 2023; Doddy Ariefianto et al., 2024; Triatmanto & Bawono, 2023). 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 (Jan et al., 2023; Susamto et al., 2023). 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 opportunities, the implementation of sustainable finance is also faced with challenges from external parties. This includes 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 (Ali et al., 2024; Roestamy et al., 2022; Soedarmono et al., 2023; Wasiaturrahma et al., 2020).

Similar challenges are also encountered in the green sukuk market in Malaysia. Keshminder, Abdullah & Mardi (2022) mentioned that the difficulty in identifying green assets is time-consuming and costly, with no compelling benefits, and exposure to higher-risk profiles are the challenges of the Sukuk market in Malaysia. Therefore, the government should provide clear guidelines to define and categorize sustainable businesses 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. (2022) in Malaysia the government has provided tax incentives for buildings classified as green buildings. Similar fiscal incentives can also be developed in Indonesia. Tax incentives should be given not only to companies with green buildings but also to companies that are able to reduce the use of buildings, considering both have an impact on reducing carbon emissions from the use of non-renewable energy.

Strategies to Improve Implementation of Sustainable Bank

The result of the 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 resulted 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 a social environment.

To enhance 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 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 is also responsible for designing CSR programs that align with sustainable finance goals, such as mangrove planting for carbon reduction and coastal protection.

PT Bank Central Asia, Tbk, has demonstrated the success of incorporating sustainable finance into corporate values and KPIs. (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.

CONCLUSION

This research delineates the SWOT analysis of Allo Bank's sustainable finance implementation, highlighting the bank's strengths in digital transformation, energy efficiency, and process automation. However, acknowledged weaknesses encompass areas such as awareness, strategy, reporting, and employee involvement. Allo Bank's opportunities lie in meeting consumer demand, leveraging the growing sustainable finance market, and capitalizing on government support and incentives. Nonetheless, challenges involve regulatory uncertainty and the need for more appealing incentives to enhance sustainable finance engagement. To address these issues, Allo Bank can focus on raising employee awareness through comprehensive education, integrating sustainable finance principles into company values and performance metrics. Establishing a specialized unit to monitor and promote sustainable finance practices could encourage proactive initiatives, fostering a culture of sustainability within the organization. Additionally, investments in renewable energy practices, innovative methods to reduce environmental impact, and active reporting of sustainable finance programs can enhance transparency and reputation. The government's pivotal role in supporting sustainable finance practices includes establishing clear regulations and standards, offering financial incentives such as tax breaks, and instituting awards for institutions showing exceptional commitment. While this research specifically focuses on sustainable banks within Allo Bank, there are future research opportunities to analyze sustainable finance implementation across various sectors and broader regions.

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