What role does the financial sector play in the development of CSR?

„The way we invest create the world we live in"
Amy Domini

Thesis for the Certificate Course
„Advanced Studies in Corporate Social Responsibility"
University of Geneva, 2008.

By Anne-Marie Kortmoeller Kammerer
June 2008

Abstract

On the one hand, we could think that CSR for the financial sector is easy to manage. Being part of the service industry, a financial institution has little impact on its environment and is less concerned by challenges related to human rights and supply chain management.

But on the other hand, if we take into consideration the financial power of this sector and its major role in the global economy, the picture is completely different.

As Ceres[1] writes in its latest report on the banking sector Corporate Governance and Climate change "Banks are the backbone of the global economy, providing capital for innovation, infrastructure, job creation and overall prosperity. Banks also play an integral role in society, affecting not only spending by individual consumers, but also the growth of entire industries."

The challenges are huge but the opportunities even larger. The demand for new innovative products and services in SRI is growing rapidly. Major actors like pension funds are evolving and are willing to invest in a more sustainable and long term way. Additionally, more regulation is required by the market and the stakeholders.

A financial institution has to integrate CSR in two ways:

1. As a company, it has to manage its own CSR program dealing with its environmental, social and governance issues.
2. As a financial institution, it has the responsibility of the flow of its investment.

This is where the financial sector can have the most notable impact in the development of CSR. As the demand increases, more and more SRI products and services are launched that have as consequences to increase the pressure on corporation to integrate CSR in their strategy in order not to be excluded from the SRI universe .

[1] COGAN, Dougly G. *Corporate Governance and Climate Change: The Banking Sector*. Ceres, January 2008

It also encourages financial institutions to develop new innovative products that inject capital in mission-investing, micro-credit, and in the green sector, giving an economic power to sectors which where previously excluded from the traditional investment universe.

Actors who will be the first to develop this type of products will have a competitive advantage and attract pension funds, foundations and funds which are out there looking for this type of products. But they will have to react rapidly as the SRI sector is growing and so does the competition.

> "By incorporating environmental, social and governance criteria into their investment decision-making and ownership practices, the signatories to the Principles (PRI) are directly influencing companies to improve performance in these areas. This, in turn, is contribution to our efforts to promote good corporate citizenship and to build a more stable, sustainable and inclusive global economy"
>
> Message from the UN Secretary-General Ban ki-moon in the Principles for Responsible Investment brochure

Table of contents

Responsible investment matters because we are talking about where people's saving meet society's goals.

The working capital report by UNEP FI, July 2007

1. Introduction

Coming from the banking sector and working in the philanthropic field, I wanted to understand more precisely how the philanthropic activities could be integrated in a CSR strategy. But, while I was developing my knowledge in CSR and integrating this information in the banking sector I realised how much influence this sector could have not only on the development of CSR, but also on a more sustainable society.

Besides philanthropy, banks can play a much significant role in the realization of sustainable development.

Based on the analysis of CSR's reports of three more advanced financial institutions and studies published by foundations, NGOs, international organisations, banks and professionals, this essay tries to respond to the following question.

What role does the financial sector play in the development of CSR and more broadly in the development of a more sustainable society?

2. Definitions

This section is dedicated to clarify some of the terms used by the financial sector. Based on different sources it is aimed to help the non-specialist readers understanding the link between CSR, SRI and ESG issues, as these terminologies will be used constantly in this essay.

2.1. CSR – Corporate Social Responsibility

CSR is a concept whereby organizations consider the interests of society by taking responsibility for the impact of their activities on customers, suppliers, employees, shareholders, communities and other stakeholders, as well as the environment in all aspects of their operations. This obligation is seen to extend beyond the statutory obligation to comply with legislation and sees organizations voluntarily taking further steps to improve the quality of life for employees and their families as well as for the local community and society at large.

www.wikipedia.com[give

2.2. SRI - Socially Responsible Investment

SRI (as well as ethical, socially responsible and sustainable investment) is a term used to describe any area of the financial sector where the social, environmental, governance and ethical principles of the investor (whether an individual or institution) influence which organisation or venture they choose to place their money with. It also encompasses how investors might use their power as shareholders to encourage better environmental and social behaviour from the companies they invest in.
EIRIS

2.3. ESG - Environmental, Social and Governance

The term that has emerged globally to describe the environmental, social and corporate governance issues that investors are considering in the context of corporate behaviour. UNEP FI
ESG is the finance industry's chosen terminology to describe what other sectors call CSR.

3. What are the challenges in term of CSR for the financial world?

On the one hand, we could think that integrating CSR for a financial company is easy. As being part of the service industry, it has little impact on the environment and is less concerned by challenges related to human rights and supply chain management. Nevertheless, a financial institution has to integrate CSR

1. to mitigate its environmental, social and governance risks related to its activities,
2. in its investment as provider of capital to industries and individual consumers.

Challenges linked to the activities

CSR challenges linked to any financial company activities are numerous. From carbon emission management, to stakeholder dialogue, from employee diversity to supply chain management, shareholder pressure and new regulations to follow, there are many issues to address.

However, the most important activities, which will impact CSR at large, are actually linked to the core business of the financial world: Investing capital in the economy.

Challenges linked to investments

Even if the financial industry has sometimes only an intermediary role in the investment process, it is still held responsible by its stakeholders for the social and environmental impact of its investments, as for example, Nike was hold responsible for its supplier activities.

Though, pressure to integrate more sustainable practices into the operational and investments activities will increase in the near future. Any financial institution will have to anticipate and respond to many CSR challenges.

The authors of Stanford Social Innovation Review, called "The Responsibility Paradox[2]", give the following advice to company executives: "Firms must update their CSR practices" because "the European Union will set the tone for product and

[2] DAVIS Gerald F., WHITMAN Marina V.N. & ZALD Mayer N. The Responsibility Paradox. *Stanford Social Innovation review*, Winter 2007

environmental regulations, the United States will lead on Governance Guidelines, and international NGOS will drive human rights and labour laws". (…) Although product and environmental regulations will reflect European standards, corporate governance will reflect an American-style orientation to transparency, consistent profitability and shareholder protection."

Thus, this paper will focus on the six following challenges:

1. The **new initiatives and regulations** developed by states, industries and international organizations.

2. The **growing demand for SRI products and services.**

3. The **dilemma between short-term and long-term performance.**

4. The **social activist development** that has more tools to influence and mobilize public opinion than ever.

5. The multiplication of **rankings published** by organization.

6. The **carbon emissions management**.

According to our survey of CEOs at companies participating in the United Nations Global Compact, more than 90 percent of them are doing more than they did five years ago to incorporate environmental, social, and governance issues into their core strategies. Our research[5] shows that while pressure from employees, consumers, and other stakeholders plays an important part in this trend, some CEOs see the new demands as opportunities to gain a competitive advantage and to address global problems at the same time.

Debby Bielak, Sheila M. J. Bonini, and Jeremy M. Oppenheim, *CEOs on strategy and social issues* McKinsey quarterly report October 2007

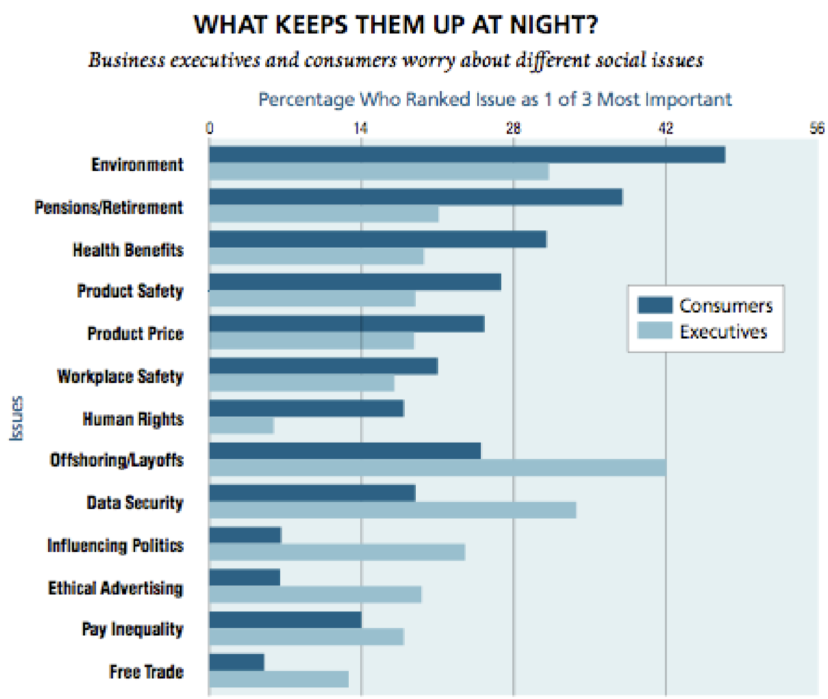
4. Where are we today? Big improvement but still a long way to go

According to SAM (Specialized Investment Group for Sustainability Investments) sustainability performance continues to advance across all sectors. However, looking at the figures of the Dow Jones Sustainability indexes 2007 annual review, the financial sector has substantial room for progress.

Compared to 10 other industries the financials are (see chart in appendix 1):

- below average regarding corporate governance and talent attraction & retention
- last in codes of conduct, anti-corruption & bribery management, labour practice management and eco-efficiency Improvements

CSR issues are a rapidly growing topic of interest and concern in the financial industry, nevertheless, there is still a gap between what the society expects companies to comply with and what companies think they have to do as described in the Stanford Social Innovation review's article "A new Era for Business" [3].



SOURCE: December 2005 *McKinsey Quarterly* survey of 4,238 global business executives and July / August 2006 survey of 4,063 consumers in the U.S., U.K., France, Germany, Japan, India, and China. Executive data are weighted by GDP of countries to adjust for differences in response rates from various regions.

---

[3] BEARDSLEYScott C., BONINI Sheila , MENDONCA Lenny, & OPPENHEIM Jeremy. A New Era for Business, *Stanford Social Innovation review*, Summer 2007

4.1. Initiatives & regulations

Financial institutions have adopted a broad range of international voluntary standards and initiatives to improve environmental and social outcomes in their activities and in their investment process, that go beyond regulatory requirements. These are the main ones (See appendix 2 for detailed information)

- **United Nations Global Compact (UNGC)**

Since it's official launch in 2000, the initiative based on 10 principles in the areas of human rights, labour, the environment and anti-corruption has been adopted by more than 5'600 participants, including over 4'300 business in 120 countries around the world.

- **United Nations Environment Programme Finance Initiative (UNEP-FI)**

UNEP-FI works closely with over 160 financial institutions which are signatories to the UNEP-FI statements to develop and promote linkage between the environment, sustainability and financial performance.

- **United Nations Principles for Responsible Investment (PRI)**

Since its launch in 2006, the PRI which encourage the investment industry to integrate ESG risks and opportunities into investment decisions, has been adopted by 381 signatories representing US$ 14 trillion in asset under management.

> In the future this commitment by investors to the PRI could have a huge impact on the way capital markets work and indeed on how we collectively address the pressing global social and environmental issues of the 21sr century
>
> **The working capital report** by UNEP FI, July 2007

- **Equator Principles (EP)**

EPs ensure that banks only make loans to projects that meet environmental and social standards. The EPs have become the global standard for project finance and have transformed the funding of major projects globally. In 2007, of the US$74.6 billion total debt tracked in emerging markets, US$52.9 billion was subject to the EPs, representing about 71 per cent of total project finance debt in emerging market economies, according to Infrastructure Journal[4].

[4] www.equator-principles.com

- **Carbon Disclosure Programme**

385 institutional investors with a combined US$57 trillion of assets under management joined the CDP to jointly seek data on the business risks and opportunities presented by climate change and greenhouse gas emissions from the 3'000 largest companies.

- **Global Reporting Initiative (GRI)**

An increased number of companies uses GRI's guidelines to report on their CSR activities. GRI provides a common framework for sustainability reporting with indices and standards addressing environmental, social and economic issues that business have to tackle.

In addition to the voluntary initiatives; regulations on carbon emission following the target determined by the Kyoto protocol are being put in place in each country.

4.2. SRI products and services

Responsible investment matters because we are talking about where people's saving meet society's goals.

The working capital report by UNEP FI, July 2007

Investors are increasingly considering ESG factors in their investments as there is a growing acceptance that ESG issues have a material impact on the financial performance of investments. Responsible investment has been the fastest growing financial instrument in the US and Europe over the past ten years. SRI in the United States is now growing much faster than the broader universe of all investment assets under professional management, according to the new edition of the *Report on Socially Responsible Investing Trends in the United States* published by the nonprofit Social Investment Forum (SIF)[5].

The expectation is that global assets of hight net worth (HNW) individuals will reach more than USD 44 trillion by 2010 (…) Private bankers willing to take leadership role in ensuring the development of products and services that respect the two ROIs – Return on Investment and Responsibility of Investment—will be serving a market where client demand is set to outstrip supply.»

Unlocking Value: The scope for environmental, social and governance issues in private banking by UNEP FI, January 2007

Business opportunities are to be taken. The demand of new innovative products is increasing rapidly but the offer has difficulty to follow. As a consequence of this growing volume of investment fund, companies are motivated to behave in a responsible manner in order to be

[5] https://www.socialinvest.org/resources/pubs/

selected. However, to respond to this new market, different skills are needed in the financial industry to understand, integrate and develop SRI investment strategy within financial institutions.

4.2.1. New innovative products and services

Besides sustainable funds, micro-credit and ESG analysis, some interesting new products and services are being developed to have a direct influence on governance or sustainable issues, like for example:

- ***Shareholder activism*** which is a process whereby shareholders exercise their rights to both propose and vote shareholder resolutions to influence corporations ESG related policies.

- **Green products**

  Altogether, annual investment in renewable energy globally passes the US$100 billion in 2006, according to the United Nations Environment Programme. This positive trend is also confirmed by Ceres[6]. In its report on Corporate Governance and Climate Change, it predicts that new global energy supply is expected to require more than US$20 trillion of capital investment over the next 25 years. Consequently, growing demand for innovative, "climate friendly" financial products or services will also lead banks into a whole new market.

- ***Mission investing***

  Both nonprofits and companies are exploring the possibility to integrate social and environmental values in their investment decisions. This logical move in SRI will increase in the near future as foundations are willing to find coherence between their actions and their investments. Additionally they realised that they could leverage their impact by

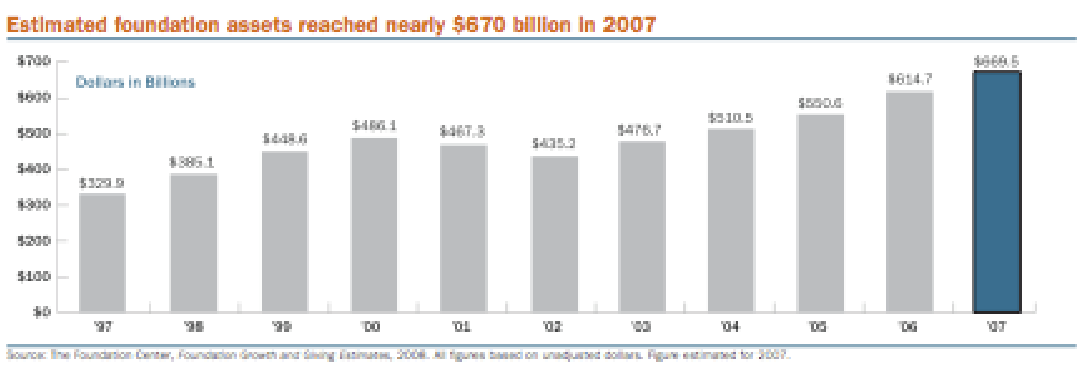
> "Foundations are also hindered by the limited number of mission investment opportunities, the paucity of outside investment advisers who understand mission investing, and the lack of reliable performance data for benchmarking the social and financial returns that mission investments provide.(…) A robust and efficient marketplace of investment options for mission investing does not yet exist. The sector needs new investment intermediaries that offer foundations easy participation with low transaction costs in a wide range of investment vehicles targeted toward specific programmatic objectives[5]
>
> The Power of Strategic Mission Mark R. Kramer & Sarah E. Cooch, Fall 2007 Investing Stanford social innovation review summer 2007

---

[6] COGAN, Douglas G. *Corporate Governance and Climate Change: The Banking Sector* , CERES, January 2008

investing their assets in investments that give both a financial and a social return. According to Mark R. Kramer & Sarah E. Cooch[7] in their article called "The Power of Strategic Mission" the market is not ready yet to respond to this new demand of mission investing products.

By looking at the figures published by the Foundation Center[8], one can realise that there are business opportunities to create specialised products for foundations. Foundation Center estimates that in the United States alone, the combined assets of grant-making foundations were about US$ 614 billion in 2007 with a constant growth since 2002. Extrapolating these already significant figures worldwide, gives us the size of potential opportunities from this sector for new SRI products and services.



4.2.2. New skills

Integrating ESG factors in the investment process is a big challenge for a financial company as almost all investment specialists, relationship managers, and marketeers have to acquire new skills. Analysing ESG factors in addition to financial data in a long-term perspective is a total change vis-à-vis the traditional way of screening financial information companies or sectors. However integrating ESG issues into investment analysis can help fund managers to better understand the future and anticipate the coming tremendous changes. To get its part of the growing SRI market, any financial institutions will have to invest in these developments of new skills.

---

[7] KRAMER Mark R. & COOCH Sarah E. The Power of Strategic Mission , *Investing Stanford social innovation review,* summer 2007

[8] Foundation growth and giving estimates by the Foundation Center, Edition 2008 www.foundationcenter.org (date de la consultation)

Graham Sinclair noted in one of its articles[9] that “The notable transformation in the way corporations are facing changing world has yet to catch up with the inertia of investment professionals in New York, London, and other major investment centers (…) Investment as usual fails to integrate ESG factors properly, and as such, is not pricing the future risks and opportunities”

4.2.3. Performance

Over the past decade, the relationship between corporate sustainability and financial performance has been debated and has been the main barrier to the development of SRI.

Nowadays, there is increasing evidence that taking into account ESG parameters in investment analysis can improve the long-term performance of funds because it allows them to identify companies that are likely to deliver a better performance over the long-term. UNEP-FI Asset Management Working Group states in its report[10] Demystifying Responsible Investment Performance, “The argument that integrating ESG factors into investment analysis and decision-making will only lead to underperformance simply cannot be made”.

4.3. Short-term versus long-term

The dilemma between today’s financial practices based on short term revenue and the long-term horizon needed by SRI is not yet resolve as mentioned in UNEP-FI report: “from a macro perspective, it is clear that the short–term mindset of many participants in the financial world is highly incompatible with the long-term horizon necessary to integrate ESG factors more effectively”. This is the reason why a number of sophisticated financial actors have not yet participated in this new trend. However, things seem to change as, under the pressure of their clients, investors are challenged to find sophisticated SRI solutions based on traditional short-term investment performance

> Competing strategic priorities and the failure of financial markets to recognize the importance of implementing a strategic approach to societal issues are among the barriers to change.
>
> CEOs on strategy and social issues by Debby Bielak, Sheila M. J. Bonini, and Jeremy M. Oppenheim, the McKinseleyQuarterly, October 2007

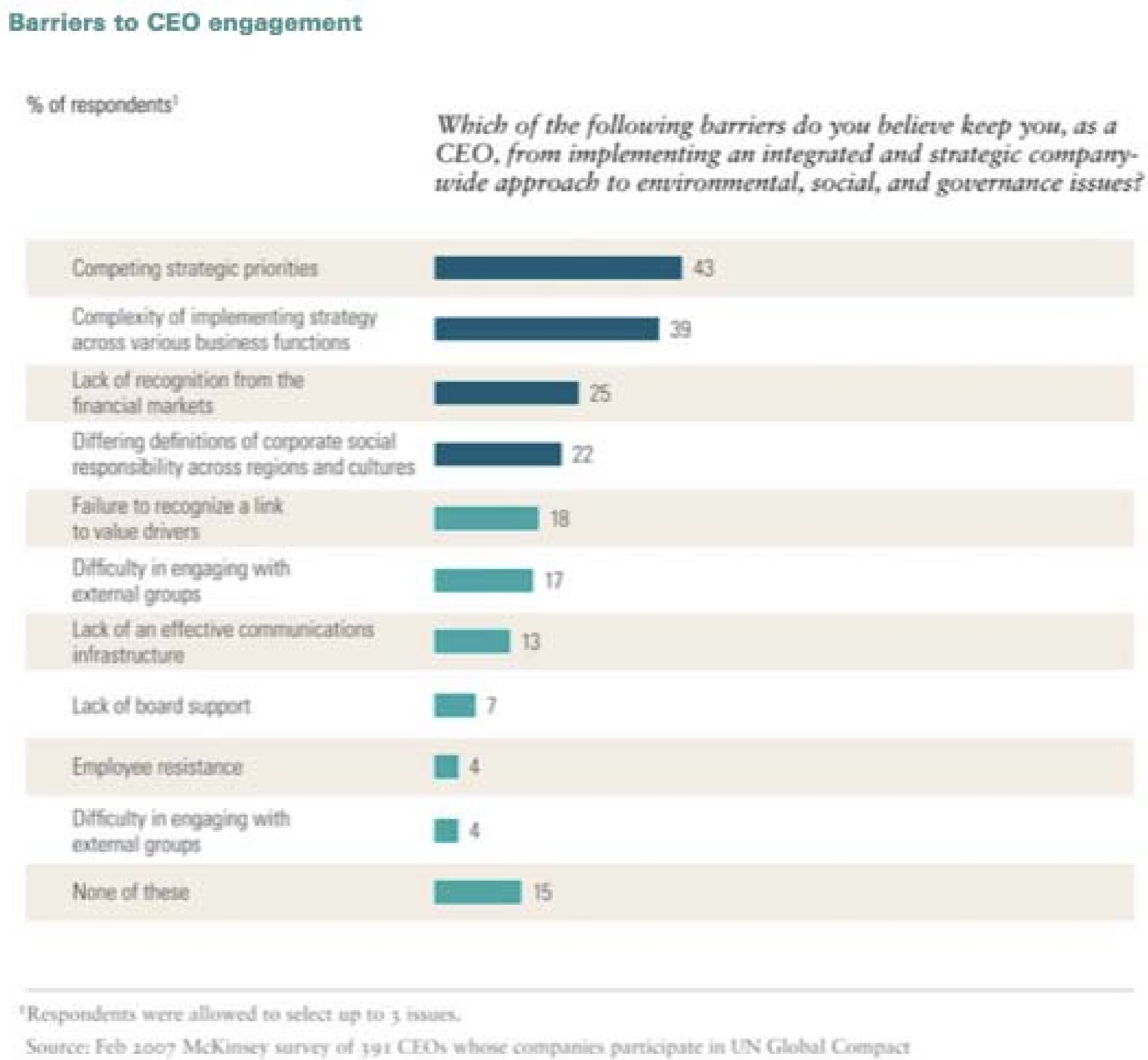
---

[9] SINCLAIR, Graham. “Investment as Usual” is broken, *Sustainable Enterprise quarterly*, December 2007 – www.cse.unc.edu

[10] UNEP FI. *Demystifying Responsible Investment Performance*, October 2007

measurements. Harcourt, for example, under the growing demand of its clients, launched in end 2007 the Belair Sustainable Alternative SRI hedge fund.

But this dilemma does not only exist on the investment side of the financial companies. Most executive managers are constantly confronted to short-term versus long-term decisions. For example, shareholders demand for short-term financial performances compete with decision on long-term investments in environmental, social or governance issues. The result of the McKinsey survey[11]bellow identifying the barriers to CEO engagement is self-explanatory.



[11] BIELAK Debby, BONINI Sheila M. & OPPENHEIM Jeremy M. CEOs on strategy and social issues, *the McKinseley Quarterly*, October 2007

4.4. NGO's activism

NGO's activism has never been as powerful as today because of three reasons.

Firstly, NGO's and freelance activists have grown much more aggressive and effective in bringing public pressure to bear on corporation by combining their forces.

Secondly, the information era has enabled today's social activists to have more tools to influence and mobilize public opinion.

And finally, as globalization increases, international and indigenous NGOs are developing their presence in low-income countries.

Consequently, they have become an important stakeholder for every company given that their actions can have a real impact on the corporation's reputation.

4.5. Rankings

As being sustainable becomes more important, a growing number of organizations have started to publish reports and studies ranking companies on the performance of their corporate social responsibility. Furthermore, some specific indexes like DJSI Indexes and FTSE4Good have been launched. These rankings and indexes measuring and publicizing ESG performances are potentially powerful way to influence corporate behaviour as they attract considerable publicity. As a result, leaders willing to improve their reputation and attract new capital have integrated sustainability into their agenda.

4.6. Carbon emissions

The financial sector plays an important role in addressing climate change not only by managing and reducing its carbon emissions but mainly because it can influence investment and financial flows.

Financial institutions are addressing their own emissions and a number of them have already become carbon neutral as HSBC for example. By purchasing electricity from renewable sources, installing solar panels on corporate building, investing in new communication technologies like video-conference and offsetting their remaining unavoidable emissions, the financial sector is on the way of managing its carbon footprint.

But more significantly, the financial sector plays an important role on the investment side. Through lending and investing, banks can help create a "clean energy" situation.

By implementing the Equator Principles in project financed, by providing capital to energy efficiency technologies, by investing in green products or launching green indexes and by actively supporting the Carbon Disclosure Project, the financial sector can influence the changes like no other sector.

> Banks have the reach, influence and access to capital required to lead the changes needed to expeditiously address global warming.
>
> Mindy S. Lubber, President Ceres. Foreword of the "Corporate Governance and Climate Change: The Banking"

However, few banks have already taken their responsibility as reported by Ceres [12] in its analysis of the 40 world's largest banks in confronting the business challenge posed by global climate change. According to this report:

- Only twelve banks have board-level involvement in climate change
- Fourteen banks have adopted risk management policies or lending procedures that address climate change in a systematic way
- None has set a policy to avoid investments in carbon-intensive projects such as coal-fired power plants
- One bank out of 40 has announced a specific target to reduce the rate of greenhouse gas emission associated with the utility portion of its lending portfolio.

But climate change is also a risk for the financial sector because it will change the economic landscape. According to Graham Sinclair [13] "Climate change is likely to have a host of impacts on business – from taxation and regulation to changes in weather patterns, technological innovation, and shift in consumer attitudes and demands. In the transition to a low carbon economy, there will be winners and losers. Investors need information to determine how companies will be affected".

These changes are also bringing tremendous opportunities. By engaging in commodities trading and brokerage services, by marketing green products and by

[12] COGAN, Dougly G., *Corporate Governance and Climate Change: The Banking Sector*, Ceres, January 2008

[13] SINCLAIR, Graham. "Investment as Usual" is broken, *Sustainable Enterprise quarterly*, December 2007 – www.cse.unc.edu

investing in the blockbusters of tomorrow, financial institutions can have a competitive advantage in this growing market.

For example, EIRIS report [14]predicts that the three main areas of opportunity for banks presented by emissions trading are:

- The brokerage of GHG emissions allowances and credits
- The financing and development of carbon offsetting projects
- Speculative investing and derivative offerings in emissions credits

5. How do some main financial actors implement CSR?

After having analysed the financial sectors' CSR challenges and given an overview of the main six issues, this section looks at how three of the main financial actors are dealing with them.

5.1. Choice of the sample

In order to choose the "best in class" in the banking sector we selected the 3 institutions which had the higher compiled score for their sector in the 2007 rankings published by Covalence and Ceres and which where included in the DJSI World.

Finally HSBC, ABN Amro and Barclays have been selected as the sample.

Score in each report	**HSBC**	**ABN Amro**	**Barclays**
Ceres – January 2008 Report - Corporate Governance and Climate Change: The Banking Sector	1	2	3
Covalence – January 2008 Ethical ranking 2007 Banking sector	1	2	5
DJSI World– September 2007 Included in 2007	x	x	x

Even if each report focuses on different aspects of CSR and uses different criteria, it is interesting to see that these three financial institutions are part of the top 5 of each ranking. This is finally logical as a company which is at the forefront of CSR has implemented best practices in all CSR fields and has therefore an overall good reputation.

[14] EIRIS. *The state of responsible business: global corporate response to environmental, social and governance (ESG) challenges*, September 2007 – www.eiris.org

Ceres report highlights climate change best practices within the financial sector, by evaluating 40 banks representing 60% of the market capitalization of the global banking sector.

Covalence ranking is based on the ethical reputation of 200 multinationals by sourcing information from companies, the media and civil society.

Dow Jones Sustainable World Index (DJSI) selects the top 10 per cent of ‘sustainability leaders’ amongst the world’s 2’500 largest companies.

5.2. How are they managing the CSR issues?

The three banks are compared on the basis of their CSR reports exclusively. This choice is motivated by the fact that a CSR report is aimed to communicate the CSR strategy of a corporation to all stakeholders. Issues that are not mentioned in this report are by fact not viewed as being part of the CSR strategy.
The following analysis is based on HSBC 2006 Corporate Responsibility Report, ABN Amro 2006 Sustainability report and Barclays 2006 Corporate Responsibility report.

HSBC CRs approach focuses on seven areas: Sustainable development: creating economic, environmental and social benefits, Corporate responsibility and sustainable development training, Managing their direct impacts, Managing risks and opportunities, Stakeholder engagement, Community investment, Microfinance

ABN Amro CRs strategy is focused on six areas: Being accountable and transparent, Protecting their assets, Providing responsible financial services, Being an employer of choice, Minimising their impact on the environment, Supporting local communities.

Barclays CRs strategy is focused on ten issues linked to the business strategy: Their customers, Responsible lending, Financial inclusion, Financing commercial customers, Growing internationally, Facing climate change, Working with their suppliers, Their people, Managing their environmental impact, Barclays in the community.

5.2.1. Initiatives & regulations

HSBC and ABN Amro have signed the main initiatives such as the United Nations Global Compact, the United Nations Environmental Programme – Financial Initiative (UNEP–FI), the Carbon Disclosure Project, the UN Principles for Responsible Investment and the Equator principles. In addition they participate in many other initiatives linked directly to an activity or a region. Barclays is less involved in these initiatives.

	HSBC	**ABN Amro**	**Barclays**
Principles for Responsible Investment (PRI)	X	X	
United Nations Environment Programm –Finance Initiative (UNEP – FI)	X	X	
Carbon Disclosure Project (CDP)	X	X	X
United Nations Global Compact	X	X	
Equator principles	X	X	
Extractive Industries Transparency Initiative (EITI)	X	X	
Global Reporting Initiative (GRI)	X	X	

5.2.2. SRI products and services

The three actors have developed, besides common SRI services and products, like funds, indexes, proxy voting services and microfinance, some innovative products and services like for example, ABN Amro Low Carbon Accelerator Fund One that donates 1% of investments to charities, "HSBC Living Business" programme for SMEs that provide information, seminars and an award scheme to support them in developing socially and environmentally responsible business practices, and Barclays that provides a carbon neutral credit card, as all the CO_2 generated by making the card is offset by projects in the UK.

Additionally, they have targeted to integrate and embed environmental, social and governance issues into their investment analysis and decision-making processes following the PRI principles.

They have also developed sector policies in order to evaluate the risks linked to new clients acceptance and allocation decisions, Surprisingly, only HSBC has mentioned its objective to grow its sustainable and responsible investment business but without any specific goals. Furthermore, none of them has given any information on how they invest their liquidity and their staff pension fund.

Finally, and in order to "make things happen", all three have implemented training programs in order to foster sustainability awareness.

5.2.3. Long-term versus short-term

The dilemma between the search for short-term return on investments and a CSR strategy that is expected to deliver positive performance over the long-term is not discussed in the reports.

5.2.4. NGOs

All three actors have developed stakeholder dialogues with NGOs but the most effective dialogues are organized by HSBC and ABN Amro. These two banks have been implicated in the development of financial initiatives and see opportunities to develop dialogue with specific NGOs. As quoted by ABN Amro in its Sustainability Report, "ABN Amro, experience has taught us that by actively seeking dialogue with NGOs at an early stage on relevant issues, we can both create opportunities to come up with new and better solutions, and also build better understanding."

Furthermore HSBC and Barclays have asked NGOs to audit their environmental approach.

5.2.5 Rankings

All three actors have understood the reputational and economic benefits to be selected by indexes, and ranked by ratings and reports, and therefore, are largely communicating the recognition received by for example the DJSI, FTSE4GOOD or the Financial Times Sustainable Banking Award.

5.2.6. Carbon emissions

All three banks have targeted to minimise the impact of their activities on the environment by optimising the environmental performance of facilities and influencing suppliers' environmental and social behaviour, none of them has reached its target yet. Principally due to business development, business travel linked with CO_2

emissions and energy consumption are two areas that banks have difficulty to reduce.

Emissions management

	HSBC	ABN Amro	Barclays
Direct impact			
Carbon reduction goal	Reduction planed but no specific target	- 10% by 2008 in energy consumption and CO2 emissions / baseline 2004	- 20% by 2010 / baseline 2000
Carbon neutrality	Since 2005	By end 2008	UK operations in 2006.

With respect to the indirect impacts of their investments, none of them have implemented a measurement of the carbon intensity of their lending books but admit that this topic has to be discussed. And finally, all three have developed products and services like CO_2 emissions trading, carbon credit trading or green products.

"We believe a company that behaves ethically, responsibly and sustainably will ultimately be more successful than its competitors because it addresses issues on which its long-term success depends, and thereby gains the confidence of investors, customers and employees"

Stephen Green, HSBC Holdings plc Group Chairman, Corporate Responsibility Report 2006

"Our role is not just to safeguard the success of our banking operations in a highly competitive and complex environment, but to do so in a manner that is well balanced and recognises and responds to global sustainability challenges. Securing our future and the future of our children means that we must play our part in addressing the challenges."

Rickman Groenink, ABN Amro's Chariman of the Managing Board, Sustainability Report 2007

"Preserving the environment for future generations reflects the evolution in thinking on sustainability, and the need to assess the impact of business over decades, rather than years. It shifts the emphasis from relatively near-term focus on managing social, ethical and environmental risk, towards a more active form of business leadership, which identifies and embraces the commercial opportunities arising from this changes"

John Varley, Barclays Group Chief Executive, Corporate Responsibility Report 2006

6. Threat and opportunities for the financial sector

By analysing the six issues chosen as being part of some of the main challenges facing the financial sector, and comparing them with what major banks are doing in practice, we realised that besides threats, the CSR development can actually bring huge opportunities to this sector. For certain of these issues, it can develop new products and services responding to a major demand that is expected to carry on expanding in the near future, as the figures integrated in this essay demonstrate.

CSR is bringing more opportunities to the financial sector than it is bringing to any other sector as there are huge opportunities in terms of innovation and a clear first mover competitive advantage.

Tackling it's ESG issues allow a financial institution to gain a first-hand knowledge of what it takes for it's clients to implement CSR and give a greater understanding of the challenges that they are facing. It positions the institution well to develop **SRI products and services.**

Participating to **voluntary initiatives** gives access to common framework that allows comparison between actors, increases understanding on specialised topics and allows knowledge sharing.

Developing dialogues with **NGOs** allow to build a better understanding of some issues and create opportunities to come up with adapted solutions.

Interestingly, the financial sector, on certain issues like "**short-term versus long-term**" dilemma is being part of the problem and of the solution. A financial institution, by being a company, that provides capital to the economy, is on the one side, under the pressure of its stakeholder to implement CSR and on the other side, it puts pressure on companies on CSR issues as it recommends or decides where and when to invest in.

Additionally, being rated positively by **indexes and rankings** organisations gives reputational benefit that is largely used in communication tools.

And finally, **climate change** offers the banking industry new business opportunities, such as carbon finance solutions, advisory services to SMEs, CO_2 emissions trading to mitigate and adapt to environmental challenges.

But taking into account these challenging issues is not simple.

Embedding CSR “philosophy” is challenging for a company as it implicates the inclusion of new values, the integration of new processes and the training of staff.

Developing new innovative SRI products and services need new skills as it is a complete change to the traditional investment process. Investors, marketeers and relationship managers have to be trained in order to have the right investing and marketing forces in place to respond and to anticipate the demand.

While signing up to initiatives is laudable, robust implementation is required by institutions in order not to be excluded from them at a later stage.

In developing dialogue with NGOs, companies have to be prepared to be transparent and to discuss with exigent stakeholders.

Furthermore, not being integrated in rankings or being downgraded leads to a negative reputational impact.

Tackling CSR challenges can provide reputational and economic benefits, it can bring competitive advantage and new market share and allow a financial institution to understand and anticipate the market. Not integrating CSR will have the opposite effect.

8. Conclusion

The most important thing a corporation can do for the society is to do business in a responsible manner in order to foster a prosperous sustainable economy.

Being sustainable and developing sustainable business is the future of all organisations. As John Varley, Barclays' Group Chief Executive writes in the 2006 Corporate Responsibility Report, "Corporate Responsibility has become more than just good business sense – in 2007 no organization can afford to ignore its scope and its implication for business".

In addition to mitigating its environmental, social and governance risks related to its activities, the financial sector like no other sector, can play an essential role in the development of CSR at large, as responsible investment is a key driver for corporate social responsibility.

> "Our role is not just to safeguard the success of our banking operations in a highly competitive and complex environment, but to do so in a manner that is well balanced and recognises and responds to global sustainability challenges. Securing our future and the future of our children means that we must play ou part in addressing the challenges."
>
> Rickman Groenink, ABN Amro's Chariman of the Managing Board, Sustainability Report 2007

It is also the sector that should benefit the most from the opportunities created by this CSR mega-trend.
It is also the sector that has the more commercial opportunities of this change in thinking linked to the CSR mega-trend.
According to UNEP-FI in its report, "…a financial institution that would integrate climate change in its strategy could have tangible benefits as:

- Improved market share
- Increased profits
- Customer acquisition and loyalty
- Higher employee satisfaction and retention
- Reputational benefits (improved brand image)
- Positive media attention
- Environmental awareness and benefits
- Improved license to operate"

The six points analysed in the present document demonstrate that by integrating not only climate change but also all ESG issues in its strategy can bring tremendous opportunities to financial institutions. HSBC, ABN Amro and Barclays like some other actors have understood the risks and the opportunities of this CSR mega-trend and are well positioned for the future.

Nevertheless, there is still a long way to go, but a real revolution has begun in the investment world leading it into whole new markets. Actors, who will not take into account these changes, could not only loose market shares but also run the risk of not being sustainable in the long-term.

Besides philanthropy, the financials can have a larger influence, by developing new SRI products and services and embedding ESG factors in all their investments and lending actions. By doing so, the financial institutions can really participate in the creation of a more sustainable world.

But market-driven solutions cannot cure all social problems this is why strategic corporate involvement has to exist too.

> "While our biggest contribution to society is the responsible provision of financial services, we have also long sought to strengthen our ties with local communities through philanthropic partnership"
>
> Stephen Green, HSBC Holdings plc Group Chairman, Corporate Responsibility Report 2006.

9. References

Reports

BEARDSLEY Scott C., BONINI Sheila, MENDONCA Lenny & OPPENHEIM Jeremy. A New Era for Business*. Stanford Social Innovation review*, Summer 2007 - www.ssireview.org

BIELAK Debby, BONINI Sheila M. J., & OPPENHEIM Jeremy M. CEOs on strategy and social issues. *The McKinseleyQuarterly*, October 2007 - www.mckinseyquartely.com

COGAN, Douglas G. *Corporate Governance and Climate Change: The Banking Sector*. CERES, January 2008 – www.ceres.org

COVALENCE. *Covalence Ethical Ranking 2007*, January 2008 – www.covalence.ch

DAVIS Gerald F, WHITMAN Marina V.N. & ZALD Mayer N. The Responsibility Paradox, *Stanford Social Innovation review*, Winter 2007 - www.ssireview.org

EIRIS. *The state of responsible business: global corporate response to environmental, social and governance (ESG) challenges*, September 2007 – www.eiris.org

KRAMER, Marc R & COOCH, Sarah E. The Power of Strategic Mission Investing, *Standford Social Innovation review*, Fall 2007

PORTER, Michael E. & KRAMER, Marc R. The link Between Competitive Advantage and Corporate Social Responsibility. *Harward Business Review*, December 2006

SAM. *Dow Jones Sustainability Indexes annual review*, 6 September 2007 - www.sustainability-index.com

SINCLAIR, Graham. "Investment as Usual" is broken, *Sustainable Enterprise quarterly* , December 2007 – www.cse.unc.edu

THE FOUNDATION CENTER. *Foundation growth and giving estimates*, Edition 2008 www.foundationcenter.org

UBS. *UBS Philanthropy Services viewpoints 2008, building change communities* – www.ubs.com

UNEP FI. *Demystifying responsible investment performance*, October 2007 – www.unepfi.org

UNEP FI*. Green Financial Products & Services: Current state of Play and Future Opportunities*, CEO Briefing, October 2007 – www.unefi.org

UNEP FI. *The working capital report* , July 2007 – www.unepfi.org

UNEP FI. *Unlocking Value: The scope for environmental, social and governance issues in private bankin*gy, January 2007 – www.unepfi.org

Banks

ABN Amro – www.abnamro.com

Barclays Bank – Barclays.com

HSBC – www. hsbc.com

Initiatives

Carbon Disclosure Project (CDP)- www.cdproject.net

Equator Principles (EP) – www.equator-principles.com

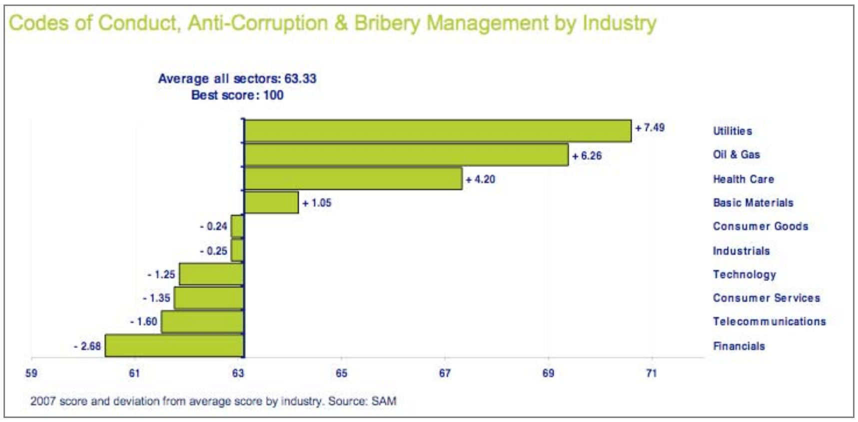
Global Reporting Initiative (GRI) – www.globalreporting.org

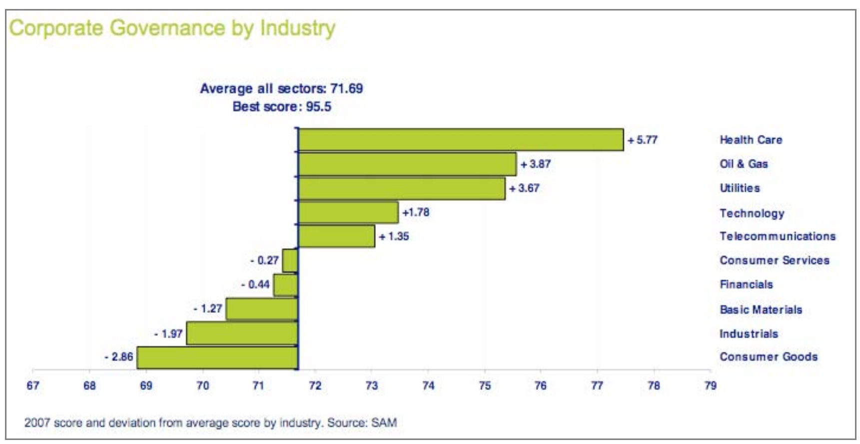
The United Nations Principles for Responsible Investment (PRI) – www.unpri.org

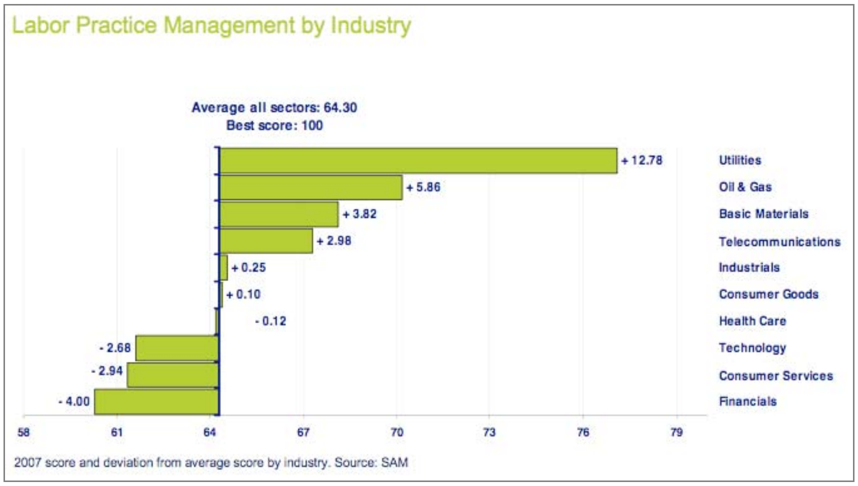
United Nations Environment Programme Finance Initiative (UNEP-FI) – www.unepfi.org

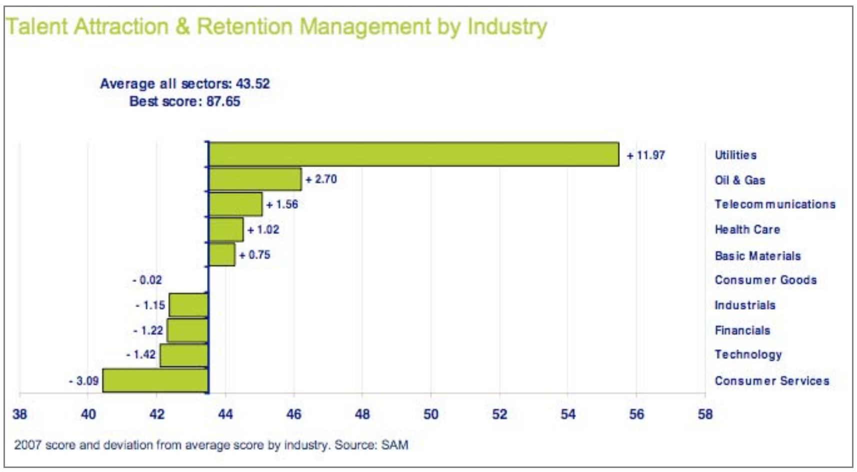
United Nations Global Compact (UNGC) - www.globalcompact.org

Appendix 1: Extract from SAM's Dow Jones Sustainability indexes 2007 annual review






Labor Practice Management by Industry
Average all sectors: 64.30
Best score: 100
+ 12.78
+ 5.86
+ 3.82
+ 2.98
+ 0.25
+ 0.10
- 0.12
- 2.68
- 2.94
- 4.00
Utilities
Oil & Gas
Basic Materials
Telecommunications
Industrials
Consumer Goods
Health Care
Technology
Consumer Services
Financials
58
61
64
67
70
73
76
79
2007 score and deviation from average score by industry. Source: SAM


Talent Attraction & Retention Management by Industry
Average all sectors: 43.52
Best score: 87.65
+ 11.97
+ 2.70
+ 1.56
+ 1.02
+ 0.75
- 0.02
- 1.15
- 1.22
- 1.42
- 3.09
Utilities
Oil & Gas
Telecommunications
Health Care
Basic Materials
Consumer Goods
Industrials
Financials
Technology
Consumer Services
38
40
42
44
46
48
50
52
54
56
58
2007 score and deviation from average score by industry. Source: SAM

Appendix 2: Initiatives

Carbon Disclosure Project (CDP)

The Carbon Disclosure Project (CDP) is an independent not-for-profit organisation aiming to create a lasting relationship between shareholders and corporations regarding the implications for shareholder value and commercial operations presented by climate change. Its goal is to facilitate a dialogue, supported by quality information, from which a rational response to climate change will emerge. CDP provides a coordinating secretariat for institutional investors with a combined $57 trillion of assets under management. On their behalf it seeks information on the business risks and opportunities presented by climate change and greenhouse gas emissions data from the world's largest companies: 3,000 in 2008.

Website: www.cdproject.net

Equator Principles (EP)

The Equator Principles is a set of environmental and social benchmarks for managing environmental and social issues in development project finance in the emerging markets. Once adopted by banks and other financial institutions, the Equator Principles commit the adoptees not to finance projects that fail to follow the processes defined by the Principles. Since its launch in 2003, 60 institutions have applied to the DP.

Website: www.equator-principles .com

Global Reporting Initiative (GRI)

The global Reporting Initiative's guidelines provide a common framework for sustainability reporting with reporting indices and standards addressing environmental, social and economic issues that business

Website: www.globalreporting.org

United Nations Global Compact (UNGC)

The Global Compact is a framework for businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labour, the environment and anti-corruption . As the world's largest, global corporate citizenship initiative, the Global Compact is first and foremost concerned with exhibiting and building the social legitimacy of business and markets. Responsible business practices can in many ways build trust and social capital, contributing to broad-based development and sustainable markets.

The Global Compact is a purely voluntary initiative with two objectives:

- Mainstream the ten principles in business activities around the world
- Catalyse actions in support of broader UN goals, such as the Millennium Development Goals (MDGs)

Website: www.globalcompact.org

United Nations Environment Programme Finance Initiative (UNEP-FI)

UNEP FI is a unique global partnership between the United Nations Environment Programme (UNEP) and the private financial sector.

UNEP FI works closely with over 160 financial institutions who are signatories to the UNEP FI Statements, and a range of partners organizations to develop and promote linkages between the environment, sustainability and financial performance. Through regional activities, a comprehensive work programme, training programmes and research, UNEP FI carries out its mission to identify, promote, and realise the adoption of best environmental and sustainability practice at all levels of financial institution operations.

Website: www.unepfi.org

United Nations Principles for Responsible Investment (PRI)

PRI is an investor initiative in partnership with UNEP Finance Initiative (UNEPFI) and the UN Global Compact which focuses on integrating environmental, social and governance [ESG] factors into investment decisions. The PRI encourages major pension funds, investment managers and service providers in the investment industry to integrate ESG risks and opportunities into investment decisions.

Website: www.unpri .org