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UNEP Finance Initiative
Innovative financing for sustainability

EPA VICTORIA

Australasian UNEP Finance Initiative Newsletter

'Innovative financing for sustainability'

Contents

National Australia Bank 'Steps UP' to make banking more inclusive

Corinne Proske, National Australia Bank

In recognising that access to banking services can be difficult for those that are suffering financial hardship, Financial Services Australia, part of the National Australia Bank has made a commitment to ensuring banking is more inclusive.

Working with Good Shepherd Youth and Family Service, the National has developed a product to give the financially disadvantaged access to affordable credit, while developing their individual credit history.

Ian MacDonald Executive General Manager FSA, National Australia Bank, Michael Yore, Director Good Shepherd Youth and Family Service and Tim Costello, CEO, World Vision Australia

The result is the National's Step UP Loan pilot that was launched in Australia in March 2004, and will run until early 2006. Participation in the pilot program is open to those satisfying the following criteria:

- Individuals who would traditionally be refused by the bank - either on welfare benefits or low income;
- Current holders of a Centrelink Health Care Card;
- Individuals who reside in a location in which the loan scheme operates; and
- Individuals who have resided at their current address for longer than six months.

The loan is being piloted in 5 regions in both Victoria (Collingwood, St Albans and Hastings) and NSW (Winmalee and Bathurst). Step UP Loans have been developed in partnership with Good Shepherd specifically to assist people living on low incomes, who are unable to access mainstream credit and who have the ability and intention to repay the loan according to the loan conditions. If people are assessed as being able to afford mainstream credit, or as being unable to repay the loan, they will not be eligible.

"The loans are similar to commercial personal loans but are designed for individuals who do not typically meet bank criteria. Customers are charged minimal interest and are mentored throughout the life of the loan by a micro-credit worker," said Corinne Proske, Corporate Social Responsibility Manager, Financial Services Australia.

The National's Step UP Loans are primarily for individuals to purchase essential household goods. Loans are approved for between $800 and $3000 and are to be repaid within three years.

"Step UP Loans are essentially low interest loans that allow individuals to develop a credit history and therefore provide an entrance into mainstream banking. This will be an extremely positive outcome for the community," Proske said.

Marilyn Webster, Manager, Social Policy & Research at Good Shepherd agrees that the National's product will have a positive impact on the financially disadvantaged.

"You don't exist without a bank account," Webster said.

"Bank accounts and financial history validate an individual's ability to secure accommodation, employment, consumer rights and identity. Yet, there are so many people out there that are excluded from mainstream banking simply because their situation doesn't meet the bank's requirements. That is why the work we're doing with the National is so important," she said.

The National will review the Step UP Loan scheme on a quarterly basis to help understand its impact within the community. When assessing the program the National will primarily consider the loan take up rate, the default rate, the number of clients who cross from the Step UP Loan program into mainstream banking and how the lives of loan recipients have altered due to the loan.

For more information on the National's Step UP Loan scheme please contact:
Corinne Proske, Corporate Social Responsibility Manager, Financial Services Australia:
T: 61 3 8634 1571
or
E: corinne_m_proske@national.com.au

Compliance with the Financial Product SRI Disclosure Guidelines: A First Report Card

Charles Berger, Australian Conservation Foundation

A study of investment product disclosure statements recently conducted by the Australian Conservation Foundation (ACF) has found that most of Australia's top investment managers do not appreciate the relationship between ethical corporate behaviour and long-term financial performance. Furthermore, many disclosure statements by mainstream product issuers do not comply with legal requirements.

Since 11 March 2004, issuers of most investment products have been required to disclose 'the extent to which labour standards or environmental, social or ethical considerations are taken into account in the selection, retention or realisation of the investment.' (See Corporations Act 2001 section 1013D(1)(f) and disclosure guidelines developed by ASIC, available at http://www.asic.gov.au.)

Based on ACF's review of disclosure statements by 25 mainstream and Socially Responsible Investment (SRI) product issuers, it appears that most SRI products comply with the disclosure guidelines by providing investors with clear information on criteria and methodology. However, the same cannot be said of mainstream products.

Disclosures for mainstream investment products seem to be split between: those that claim not to take these considerations into account at all; and those that do take labour standards, ethical, social and environmental considerations into account, to the extent they affect the financial value of the investment.

About half of the mainstream investment products state that ethical considerations are not taken into account, usually without much elaboration. For most managed funds, such disclosures are inaccurate. For example, most investment managers would not disregard news of a major industrial dispute or pollutant spill in assessing a potential investment, for the straightforward reason that those events could affect the company's bottom line. If this is so, then the manager does consider environmental issues, albeit in an unsystematic way.

For most other mainstream products, the disclosure suggests that the manager will take labour standards, ethical, social and environmental issues into account 'implicitly', or to the extent that those issues affect the value of the investment. These disclosures more accurately reflect the position of most fund managers.

Unfortunately, mainstream issuers usually provide little or no detail on how this is accomplished. Such disclosures are not in compliance with the ASIC guidelines, which clearly mandate some discussion of criteria, methodology and monitoring for any product that claims to take labour standards, ethical, social or environmental considerations into account.

These deficiencies in mainstream product disclosures are troubling, and ACF has called on ASIC to take action to ensure improved compliance with the legal requirements.

Beyond compliance concerns, the disclosures reveal much about the approach of mainstream product issuers to these matters. It appears that the mainstream investment community still labours under fundamental misconceptions about integrating ethical, social and environmental concerns into investment decision-making.

For example, some managers state that they do not consider ethical issues because they are unable to take into account the 'individual beliefs and values' or 'particular interests' of their investors if that would affect investment returns. Such statements assume that there is no financial or investment benefit in examining a company's social and environmental behaviour - a view all SRI managers and many others reject. While this view was widespread in decades past, it is surprising that some major fund managers continue to adhere to it. In fact, poor performance in these areas usually has objective financial consequences (in terms of liability, risk, reputation and competitive position), and may well be a proxy for poor performance in other areas as well.

Other managers are more aware of financial impacts of labour standards, social, environmental and ethical concerns, but tend to limit their consideration variously to the 'risks' or 'adverse effects' that may result from 'poor performance' on environmental or social issues. Such managers appear not to appreciate the positive effects of a focus on sustainability. The focus on risks is perhaps understandable: a chemical spill may be more dramatic and have a greater immediate impact on the value of the company than a long-term strategy of reducing material inputs, for example. Over the long run, however, the competitive advantage of companies that focus on sustainability may well be just as important as the disadvantages and risks faced by poor performers.

The continued direction of capital into ecologically and socially unsustainable uses threatens the long-term health of Australia's environment and economy, and degrades investment returns - especially for investors with long-term investment horizons, like superannuation funds and insurers. Judging from the product disclosures, many investment managers still have some way to go before even comprehending the problem, much less contributing to the solution.

For further information, please contact:

Charles Berger, Law & Corporate Responsibility Coordinator, ACF

T: 61 3 9345 1173
or
E: c.berger@acfonline.org.au

ACF's full report is available online at:
http://www.acfonline.org.au/asp/pages/document.asp?IdDoc=2075.

Sustainable Insurance in New Zealand

Kate Nelson, Insurance Australia Group, NZ

IAG New Zealand Limited, New Zealand's largest fire and general insurer, is embarking on an extensive sustainability program throughout its nationwide network.

Trading under the well known State and NZI brands in New Zealand, the insurer sees this program as a means to achieve its business goals whilst protecting and promoting the social, economic and environmental well being of the communities in which it operates.

In addition to reducing its own environmental footprint, IAG NZ is implementing a broad risk reduction strategy.

"In the past the insurance industry has focused on helping people when things go wrong," says CEO David Smith. "Increasingly we have a responsibility to help customers and the wider community to focus more on the front end of insurance. The challenge is how do we actually reduce risk? We have to stop things going wrong in the first place".

IAG NZ's Sustainability Support Manager Kerryn Butler lives and breathes this challenge. "Not only will it have a positive impact on our business in terms of a reduction in claims, but it will lessen the social and financial impact of traumatic events on vulnerable communities", Butler said.

"We're launching a number of risk reduction projects, including raising the issue of climate change and the impact it has on communities. We're also working in partnership with the New Zealand Fire Service, Neighbourhood Support, Community Patrols and the Police to reduce the risk of fire and burglary in the community."

Paull Christensen, Loss Adjustor, IAG NZ, Lynne Southee, IAG customer and David Smith, IAG NZ Chief Executive during February floods in central New Zealand.

Climate Change

IAG NZ sees global warming and climate change as a serious business issue. Not only are 18 of the top 20 recorded largest disasters in New Zealand weather-related, but the frequency and severity of these disasters is increasing dramatically. This results in skyrocketing claims pay outs and almost constant disruption in communities nationwide.

New Zealand has had two '100 year' events in the last two years. In July 2002 the northern half of the North Island and the Thames Coromandel region were hit by a 'weather bomb' that produced unprecedented rainfall intensities causing major damage to the area. In 2004 extreme weather has again been experienced, with record flooding in the central New Zealand region in February and in the Bay of Plenty region in July.

Traditionally, the response from insurers has been to raise premiums and reduce or withdraw coverage. This not only leads to a loss of customers, reduced premium income and damage to corporate reputation, but also greater risk to vulnerable communities.

So what is the company doing to help? IAG NZ has commissioned a report to model a range of weather events (mid-latitude cyclones, weather bombs and ex-tropical cyclones) under future climate change scenarios for New Zealand. At this stage it is not possible to predict the outcome of the modelling, but accepted region-wide mapping strongly suggests that weather events will increase in frequency and intensity as global warming increases.

As part of this IAG is working to educate the community, business partners and business leaders by hosting and supporting seminars in association with organisations like the NZ Council for Sustainable Development, the Sustainable Business Network and the Manukau City Council in Auckland.

At a local level, it is working with the Thames Coromandel District Council and Environment Waikato on a project that is proposing flood protection works for those Thames Coromandel townships affected by the 2002 Weather Bomb and at greatest risk of flooding in the future.

Internal Environmental Footprint

The company's own environmental footprint is also under examination. A series of internal alignment workshops have been held in an effort to raise staff awareness of the issue.

IAG NZ has also established a Sustainability Action Team (SAT) made up of approximately 100 voluntary staff members. The SAT team works on a wide range of local projects, such as beach clean-ups, community events with the fire service, building audits, and internal competitions to reduce power use and increase recycling in the office.

To monitor its usage of paper, electricity, fuel and air travel, the business has set corporate targets, which are tracked on a monthly basis.

IAG NZ has also joined the GreenFleet program to manage its vehicle fleet more efficiently, and has started to encourage suppliers to adopt its sustainability principles, including sustainability as part of the evaluation criteria in tenders.

Partnerships

IAG NZ is also working with well-respected organisations that share the company vision of reducing the risk of crime and fire in the community. As part of its sustainability program it has partnered with the New Zealand Fire Service (NZFS) and Neighbourhood Support with the aim of decreasing the number of fire and burglary-related incidents in homes right throughout the country.

There is a long journey ahead. But IAG NZ remains committed to working with communities to ensure all New Zealanders, no matter where they live, can be safe, secure and have access to affordable insurance protection.

For further information please contact:
Kerryn Butler, Sustainability Support Manager, IAG NZ
E: kerryn.butler@iag.co.nz

Shorts

Gabrielle McCorkell, EPA Victoria

The Equator Principles - one year on

Adoption of the Equator Principles, an industry approach for financial institutions in determining, assessing and managing environmental and social risk, has grown steadily over the last year since they were launched. Within one year the number of adoptees of the Equator Principles has grown from 10 to 25 financial institutions. In 2003, this figure represented 75 percent of all project financing.

Adoptees believe the Equator Principles will foster their ability to document and manage their risk exposures to environmental and social matters associated with the projects they finance, thereby allowing them to engage proactively with their stakeholders on environmental and social policy issues. Adherence to these principles will allow them to work with their customers in their management of environmental and social policy issues relating to their investments in the emerging markets.

In line with the Principles' first year birthday, Bank Track, a network of civil society organisations, put out a report, entitled Principles, Profit or Just PR, an assessment of the implementation and effectiveness of the Equator Principles.

To obtain further information about the Equator Principles visit:
http://www.equator-principles.com

Bank Track's report is available on line at:
http://www.banktrack.org/

Climate Change solutions for Australia

A group convened by WWF and Insurance Australia Group, The Australian Climate Group recently launched a report entitled Climate Change Solutions for Australia. The report is designed to guide public opinion and government policy towards a solution to the issues of climate change.

The report highlights the need to: set a national target for reduction of emissions of 60 percent by 2050; implement an emission trading scheme by 2007; cut energy costs by using energy more efficiently; take measures now to adapt to a new climate; encourage new business opportunities; and ensure Australia is a lead player in the international arena.

The report is available on line at:
http://www.wwf.org.au

Environmental Reporting Guidelines for Financial Institutions

The Global Reporting Initiative (GRI) is a long-term, multi-stakeholder, international process with a mission of developing and disseminating globally applicable Sustainability Reporting Guidelines.

The GRI in conjunction with UNEP FI has recently launched the draft GRI Finance Sector Supplement (Environmental Performance), which is presently open for consultation. A working group convened by UNEP FI and the GRI has developed the draft.

The aim of the supplement is to develop a set of globally applicable indicators that will address the environmental impacts of financial sector products and services to be used in conjunction with the broader GRI Sustainability Reporting Guidelines. The set of 15 draft indicators is associated with retail banking, commercial and corporate banking, asset management and insurance.

To view and comment on the draft supplement please visit:
http://www.unepfi.net/gri/public

ASrIA Annual Conference 2004

ASrIA, the Association for Sustainable and Responsible Investment in Asia, recently held its third annual conference in Singapore.

Held in July, the first day's focus of the conference was on who and what is driving SRI in Asia. With the operations and production lines of many companies shifting to Asia, many global companies are striving to implement global business strategies with sustainability at the fore. Similarly, many smaller Asian companies are struggling to meet international standards in best practice. In this context, this day was designed to assess the status of SRI in the region and the penetration of global business principles into Asia. There was also a focus on methodologies for developing SRI specifically in the Asian environment.

The focus of the second day of the conference was on SRI tools especially relevant for Asian markets. The day highlighted a range of practical issues that shape the SRI agenda for key Asian sectors including how key material risks are identified. Away from the conventional fund arena, time was also spent exploring how progress is being made in innovative areas such as the micro-finance and private equity sectors.

To view the ASrIA conference papers, please visit:
http://www.asria.org/

Helping to green Australian households

Rowan Dowland, mecu

One of Australia's largest credit unions, mecu, has launched a new home improvement loan for its members that represents both good value and is beneficial to the environment.

mecu is a financial services institution with a long history of delivering value to its members. In business for over 45 years, mecu has strong links to the education, and science sectors. The credit union offers products that reflect members' financial needs as well as being committed to social and environmental issues in the community.

mecu's goGreen[tm] Home Improvement Loan aims to make a positive step towards conserving water and energy usage as well as reducing greenhouse gas emissions.

"Many thousands of people finance the purchase of their homes with mecu. Now these people can also borrow funds to install a range of water and energy saving features into their homes at discounted interest rates," says Rowan Dowland, Group Manager Marketing and Development, mecu.

Mr. Dowland says that "Whilst governments have moved to introduce mandatory schemes which ensure improved environmental efficiency standards for new homes our goGreen[tm] Home Improvement Loan recognises the opportunity that exists for home renovators to improve water and energy performance in existing homes".

The goGreen[tm] Home Improvement Loan is offered both as a secured and unsecured loan to finance the cost of environmental impact mitigation methods including: solar hot water; insulation; high efficiency gas heaters; 5 star energy efficient glazing; awnings; water tanks; grey water recycling systems; and solar or wind generation devices.

The list of energy and water saving devices will be regularly updated in consultation with appropriate government agencies to ensure new methods of mitigating the environmental impact of homes can be financed as they become available.

"Increasingly, consumers are driving change as they become more aware of the pressures operating on our environment and demand goods and services that have less environmental impact and which enhance the quality of life. This shift in focus has created new opportunities for mecu", says Dowland.

Society also needs to ensure that its environment is safe, clean and healthy for the enjoyment of present and future generations. As such, mecu is committed to sustainable development.

"Achieving sustainability will require mecu to think creatively and innovatively about approaches to business including developing new products, services and processes", says Dowland.

In line with its approach to sustainability, mecu is the world's first credit union to become a signatory to the United Nations Environment Programme's Statement by Financial Institutions on the Environment and Sustainable Development.

Mr. Dowland says "For mecu sustainability is ultimately about creating long-term member value and, we think, the management of social and environmental risks is ultimately woven into the fabric of cooperative philosophy and outstanding financial performance. Financing homes is a core part of our business and so encouraging people to conserve water and energy as well as save money makes good sense all round for us".

For further information please contact:
Rowan Dowland, Group Manager Marketing and Development, mecu
T: 61 3 9854 4644
or
E: Rowan.Dowland@mecu.com.au
or
visit the mecu website at:
http://www.mecu.com.au

Protecting pensions and the planet

Gabrielle McCorkell, EPA Victoria

In capital markets across the globe companies will see their share price suffer in the long term unless proper attention is paid to environmental and social issues, warns a group of the world's most powerful financial institutions.

In a new report with the United Nations Environment Programme (UNEP), a group of 12 fund managers (see below) representing $USD1.6 trillion of assets under management calls on investors, government and business leaders to embed environmental, social, and governance best practice at the heart of markets.

Without bold steps taken now these issues will threaten long-term shareholder value concludes the summary report, *'The Materiality of Social, Environmental and Corporate Governance Issues to Equity Pricing,'* which was launched in June at the United Nations Global Compact Leaders Summit in New York.

UNEP Executive Director Klaus Toepfer said, "This new report is a crucial recognition from major financial institutions that the environmental and social components of sustainable development, as well as the economic considerations, should sit at the heart of investment and capital market considerations."

"The financial analysts who undertook the research believe sustainability issues impact long-term shareholder value. It is clear, however, that to protect shareholder value the response must start with action today by companies serious about our environment and that wish to contribute to thriving communities worldwide," said Toepfer.

The summary report is based on eleven sector reports by brokerage house analysts and was produced for the UNEP Finance Initiative Asset Management Working Group. It is the first time the financial impact of environmental, social and corporate considerations and criteria as they relate to the portfolio management of mutual, pension and other institutional funds have been studied in this way.

The leading brokerage houses that undertook the work for the UNEP FI group concluded that aviation, insurance, oil and gas, and utility companies already face material threats linked to climate change while some sectors were witnessing evolving opportunities in the form of new 'Carbon Markets.'

Industry sectors covered by the brokerage research included: aviation; clothing; electronics; oil and gas; insurance; pharmaceuticals; and utilities. The resulting eleven reports covering eight industry sectors provide an insight into how mainstream financial analysts are tackling a range of complex new threats and opportunities in their assessments of corporate performance.

Some of the key findings include:

- Environmental, social and corporate governance issues affect long-term shareholder value. In some cases those effects may be profound;
- Financial research is hindered both due to the paucity of reporting on the part of many companies concerning environmental, social and corporate governance issues and because of insufficient disclosure of these issues in annual reports; and
- Financial research is greatly aided when there are clear government positions with respect to environmental, social and corporate governance issues. In some cases analysts were not able to

provide in-depth reports due to a lack of certainty regarding government policy.

"The analyst findings demonstrate clearly that consideration of environmental, social and corporate governance factors are essential to prudent investment management and therefore essential to the fiduciary responsibility of pension fund trustees and investment managers," said Carlos Joly, Co-Chair of the UNEP FI Asset Management Working Group, and representative of Storebrand Investments. "It is to be expected that regulators will take this into account when updating fiduciary law, and that institutional investment consultants will also take notice," he said.

Anthony Ling, of Goldman Sachs, one of the brokerage houses that contributed to the report commented, "We strongly believe in a full and consistent disclosure of Corporate Social Responsibility data by companies so that they can be included in fundamental company analysis, where we believe they belong." Ling added, "We see such issues as being an integral part of successful management in the modern world and that they should be taken into account in financial analysis and therefore investment considerations."

Brokerage houses contributing sector research for the UNEP FI report included: ABN AMRO Equities (UK); Deutsche Bank Global Equity Research and South African Equity Research; Dresdner Kleinwort Wasserstein Europe and UK; Goldman Sachs European Equity Research; HSBC; NikkoCitigroup Japan Equity Strategy; Nomura Japanese Equity Markets; UBS Global Equity Research; and West LB Equity Markets.

The 12 financial institutions that worked with UNEP FI on the report are: Acuity Investment Management, Canada; BNP Paribas Asset Management, France; Calvert Group Ltd., USA; Citigroup Asset Management, USA; Groupama Asset Management, France; Morley Fund Management, UK; Nikko Asset Management, Japan; Old Mutual Asset Managers, South Africa; San Paolo IMI Asset Management, Italy; Storebrand Investments, Norway; ABN AMRO Asset Management, Brazil; and HSBC Asset Management, Europe

Copies of the report are available online at:
http://www.unepfi.net/stocks

A Changing Climate For Insurance

Sebastian Catovsky, Association of British Insurers

Action to manage climate change risks needs to start today, according to a report published in June by the Association of British Insurers (ABI). *'A Changing Climate for Insurance'* analyses for the first time the practical implications of climate change for a key business sector and its customers. The report identifies the main ways climate change affects the insurance industry including: changing customer needs, changing patterns of claims and new tightening regulation. It looks at some of the key impacts that climate change is likely to have on all aspects of the insurance industry - risk transfer, investment, business operations, communications and reputational issues.

Climate change and business risks

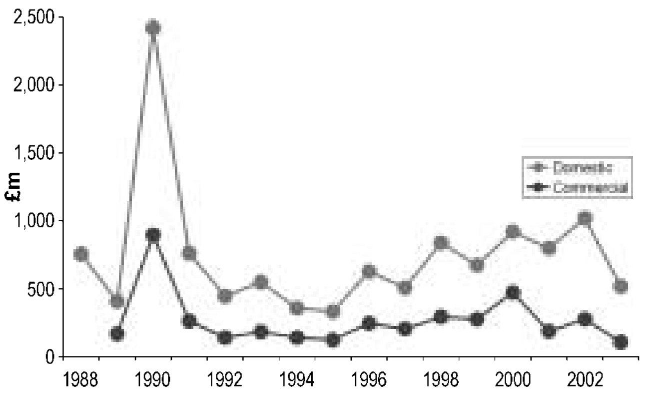
Climate change is, in various forms, already affecting businesses in today's market. Insurance is in the front line of climate change. As the widespread floods in the UK and other parts of Europe in recent years have demonstrated, it is insurance companies that will have the responsibility of dealing with many of the consequences of climate change. Furthermore, it is insurers who must be equipped to analyse the new risks that flow from climate change, and help customers manage these risks. Economic losses due to natural weather catastrophes have already increased ten-fold in the last 40 years, and are predicted to exceed $150bn in the next five years[1]. In the UK, storm and flood losses in the last six years have totalled £6.2bn, twice that of the previous period of six years (Refer Figure 1).

For these reasons, the Association of British Insurers (ABI) commissioned Dr Andrew Dlugolecki to undertake this study[2] on the implications of climate

[1]*Annual review of natural catastrophes 2003,* Munich Re Topics, 2004

[2]*A changing climate for insurance,* Association of British Insurers, June 2004

Figure 1. Trend in gross weather damage insurance claims (£m) since 1987. Claims are adjusted for 2003 prices, and include flood, storm, and burst pipes. Source: *ABI Statistics*



change for the UK insurance industry, its customers and the public policy process, and to identify the next steps in understanding and managing the risks and opportunities it presents.

Changing patterns of claims

As climate change increases the frequency and severity of extreme weather events, the possibility of weather related catastrophic losses will be much greater. This raises issues of both insurability and capacity for insurers. Insurance can only provide a suitable risk transfer mechanism if risks are kept to a manageable level.

Weather risks are already increasing by 2 to 4 percent per year on insurers' household and property accounts due to changing weather. For property insurance in particular, there is a risk that in some circumstances weather damage might rise to a point where insurance could become unaffordable or unavailable.

Commercial property policies typically form the basis of business interruption cover. While fire and explosion damage account for the majority of such claims (around 85 percent), increasing severe weather events, particularly those resulting in prolonged electricity network failures, may change the pattern of future business interruption losses.

The study results show that the underlying risk from extreme weather will continue to increase in the future, and more than likely at an accelerated pace.

Initial calculations suggest that future claims costs could be two or three times higher than today's levels (Refer Table 1).

Table 1. Preliminary estimates of future costs of weather insurance claims (£m in 2004 prices).

	Today		2050	
	Annual average	Extreme year	Annual average	Extreme year
Subsidence	300	600	600	1,200
Storm	400	2,500	800	7,500
Inland flood	400	1,500	800	4,500
Coastal flood	–	5,000	–	40,000 (London affected)

Other general insurance products, such as motor, have seen some increase in weather-related claims over the same period, but at a much lower rate. These changes may accelerate and affect a wider range of products, particularly liability classes, in future. Furthermore, indirect impacts of climate change on health and longevity could potentially influence the balance between state and private provision of health care and pension products, but the effects are likely to be small in relation to other policy pressures.

Changing customer needs

There will be opportunities for the insurance industry to provide important risk transfer mechanisms to enable business and society to manage climate impacts in an efficient way. For example, alternative risk transfer markets, such as weather derivatives and catastrophe bonds are expanding, as customers seek cost-effective ways to deal with their increasing weather exposures. Climate change may also present new liabilities requiring insurance. For example, directors may be held responsible for the environmental impact of their businesses in future, requiring wider Directors and Officers cover (Refer Table 2).

Table 2. Potential impacts of climate change for non-property classes of general insurance

Class of business	New Challenges	New Opportunities
Motor	Increased frequency of claims due to weather related accidents both in heavy rain and hot weather. Increase mileage due to longer, warmer summers.	Decreased weather related claims due to less frequent fog and frost. Improved driving technology, responding to more challenging driving conditions, may reduce the overall severity and frequency of accidents. Reduced mileage due to higher fuel process, concern for the environment, better public transport or adverse weather.
Travel	Less demand, as more holidays taken in warmer UK, as temperatures in Mediterranean destinations become increasingly uncomfortable.	More active lifestyles with warmer summers encouraging more activity holidays. Increased demand to protect customers from weather related cancellations.
Construction	More claims from wind and rain. Unanticipated stress on materials and failures of novel systems.	Reduced claims due to cold weather and new technologies adopted in response to climate change risks.
Directors and Officers	Directors held liable for high emissions through civil action or regulation.	Increased expectations of duty of care could lead to increased demand for insurance.
Employers' Liability	Increased accidents at work in severe weather.	Less depression in fine weather.

New and tightening regulation

Insurers can ensure the long-term viability and security of their investment portfolios by taking account of more stringent regulations on emissions standards and effects of changing weather. At the same time, supporting sustainable investments could drive the market towards encouraging developers and fund-managers to adapt their business practices for a changing climate. As life and pension funds typically invest for the long term, it is particularly important that they take appropriate precautions on the longer-term risks that climate change poses.

Next steps

Insurers are often the messengers of change through the pricing and conditions attached to their policies. As a result, the industry has a key responsibility in helping customers deal with exposure to increasing climate change risks, and communicating these risks clearly to help government and other stakeholders understand what steps are needed to counter or prepare for climate change. The ABI will work with member companies over coming months in order to shape policy going forward, and will continue to work in partnership with public authorities to look at ways to manage, reduce, and, where possible, avert climate change risks.

For further information please contact:
Sebastian Catovsky, Policy Adviser, Natural Perils, Association of British Insurers:
E: sebastian.catovsky@abi.org.uk

The report is available online at:
http://www.abi.org.uk/climatechange

Enhanced Transparency at Aviva Australia

Rob Gill, Aviva Australia

In May 2004, Aviva Australia released its inaugural Corporate Social Responsibility (CSR) report, detailing performance and governance practices across social, environmental and occupational health and safety (OHS) dimensions. Monash University Environmental Institute, which was the source of external verification, partnered Aviva Australia in the production of the report. Aviva Australia's CSR report supplements the global CSR report released by the London based parent company Aviva plc in May 2004. The global report is also in line with global standards of reporting recommended in the United Nations sponsored Global Reporting Initiative.

Aviva Australia is the local face of the global Aviva plc Group. With a presence in more than 30 countries around the globe, Aviva provides life insurance and pension products to Europe and is the seventh largest insurer in the world. In Australia, Aviva brings investment and protection products to the market through two brands - Navigator and Aviva. The head-office is located in Melbourne, with satellite offices in Sydney, Brisbane, Adelaide and Perth. Aviva Australia employs around 700 staff.

Aviva believes sound and demonstrable performance of CSR policies and practices is a fundamental part of business success. As a group, Aviva is committed to managing its direct and indirect impacts on the societies in which it operates. The CSR report underlines Aviva Australia's commitment to behave ethically and to contribute to economic development, while improving the quality of life for Aviva's workforce and families, as well as the local community at large. The *'2003 CSR Report - a summary'* is the beginning of a long journey towards providing a transparent and accountable business plan incorporating social responsibility and environmental considerations.

The 2003 CSR Report is an account of Aviva's environmental, safety and social performances over 2003. It includes policies regarding occupational, health and safety plus topical social agendas, along with realistic targets for 2004. Rob Gill, Project Manager for CSR at Aviva Australia, says the report details Aviva's areas of strength alongside those performances that can be improved upon. "A key value at Aviva is integrity, and this report recognises our operations may have indirect social and environmental impacts, but we are committed to improvement. This is a step towards a balanced and accountable approach to business."

This report complements the aspirations and commitment of staff to maintain Aviva's guiding principles. "As a financial services business, we are aware of the impact we have on the community and environment through our office practices and globally through our products and services. Our strategy is to minimise our negative effects and maximise all potential positives through our policies and procedures," said Allan Griffiths, Chief Executive Officer Aviva Australia. "We are determined to be a good corporate citizen".

For further information, please contact:

Rob Gill, Project Manager CSR, Aviva Australia:
T: 61 3 9829 8093
or
E: Robert_Gill@avivagroup.com.au

To view Aviva Australia's social responsibility report please visit:
http://www.avivagroup.com.au

Global Compact Leaders Summit

Helen Bloustein, EPA Victoria

The Global Compact Leaders Summit, chaired by UN Secretary-General Kofi Annan, assembled up to 500 corporate executives, government officials and civil society leaders at UN headquarters on 24 June, 2004. The Summit was held to mark the fourth anniversary of the creation of the Global Compact, a set of voluntary UN principles for business covering environmental, human rights and labour issues. A key outcome of the summit was the adoption of a 10th Global Compact Principle on anti-corruption.

In addition, twenty major investment companies - including Banco do Brasil, Credit Suisse Group, Deutsche Bank, Goldman Sachs, HSBC and Morgan Stanley - endorsed a Global Compact report and initiative on 'connecting financial markets' to environmental, social and governance criteria, and agreed on steps to bring others into accord on how these factors would become standard components in the analysis of corporate performance and investment decision-making. The twenty companies control $USD6 trillion in assets.

The report, entitled '*Who Cares Wins*', was presented at the Summit by a managing director at Goldman Sachs.

"Mainstream investment houses are increasingly coming to the conclusion that analysing companies' polices related to social and environmental issues must be central in their work since such commitments are fundamental in terms of risk management", said Gavin Power, a senior advisor at the Global Compact. "This report represents a major sea change in approach vis-à-vis the financial community".

At the Summit, ten world stock exchanges also announced an agreement to explore modes of cooperation with the Compact, including actively sharing information about the Global Compact with their listed companies. The ten exchanges carry a combined market capitalisation of $USD3 trillion and include: Bovespa, Deutsche Borse, Euronext, Italian Exchange, Luxembourg Stock Exchange, the Irish Stock Exchange, Istanbul Stock Exchange, Jakarta Stock Exchange, Johannesburg Stock Exchange, and the Toronto Stock Exchange.

In addition, the Brazilian stock exchange, Bovespa and the Jakarta Stock Exchange, officially announced their decisions to join the Global Compact, becoming the first two stock exchanges to do so. Participation in the Global Compact entails adhering to and promoting universally agreed UN principles in company practice.

A number of other publications, reports and materials on corporate citizenship were also released at the summit. These include:

- Raising the Bar - Creating value within the United Nations Global Compact;
- Gearing Up - From Corporate Responsibility to good governance and scalable solutions;
- Learning to Talk - Corporate Citizenship and the Development of the UN Global Compact; and
- HIV/AIDS Everybody's Business.

To access the 'Who Cares Wins' report, please visit:
http://www.unglobalcompact.org/irj/servlet/prt/portal/prtroot/com.sapportals.km.docs/ungc_html_content/NewsDocs/WhoCaresWins.pdf

To access the other papers from the summit, please visit:
http://www.unglobalcompact.org/Portal/

From Crop to Shop: Investors highlight food sector risks to trustees

Meg Brown, Just Pensions

A group of UK investors, in collaboration with the UK Social Investment Forum have developed a new series of notes, under the Just Pensions Program to further inform UK pension fund trustees about the social and environmental risks facing their investments. The latest note focuses on the food sector, including both retailers and producers/processors, and identifies the key potential risks facing companies within this sector. It is expected that trustees and other long term investors will be interested in finding out how the companies included in their portfolio are managing these risks, which would give them an advantage over their competitors and protect their brand value.

The key risks identified in the note included both long term and short term risks surrounding changing consumer preferences, sustainable agriculture, relationships with developing and emerging economies and regulation and agricultural trade reform. Two of these risks are further explored below.

The first is changing consumer preferences. In the short term food safety is of primary concern to consumers. Safety scares can lead to quick reactions by consumers and impact on purchasing and consumption preferences. Consumers are also sensitive to the use of genetically modified organisms within food. Producers and retailers must ensure that they meet appropriate standards to avoid legal action and damage to reputation, especially those companies with international supply chains. A food producer's management of 'scares' can build or damage trust in its brand.

In the longer term, as concerns about obesity continue to grow so too does consumer demand for convenient healthier products. As purchasing decisions shift to favour lower fat, lower sugar and fresher foods in the long term, food producers with a narrow product profile may risk losing step with consumer preferences. Innovation in new products to diversify the range on offer, as well as making healthier foods as convenient and costs effective as less healthier products, could protect sales in the long term.

The second risk is sustainable agriculture. The food production and retail sectors are fundamentally linked to the ecological systems that produce their raw materials. The decoupling of food production from long term management of natural resources inevitably leads to a break down in productivity, undermining the long term viability of the sector. It is thought that food companies, together with investors, should support an evolution towards a more holistic system of agriculture to ensure the sustainability of food resources in the long term. Inaction may expose the industry to risks of limited supplies and rising prices, as well as reputation damage if the consumer associates a company with the degraded environment.

By highlighting these risks to trustees the Just Pensions Program is hoping to encourage trustee activism on topics that can make a difference to company performance. This approach is in line with the results from a recent survey by Just Pensions that highlighted the bullish attitude of UK trustees towards the impact that pension fund activism will have on companies in the future. This survey found that 42 percent of respondents thought that activism would lead to substantial improvements in company management within the next ten years.

By systematically working through the major FTSE 100 sectors in which UK pension funds invest, identifying where social and environmental issues could impact financial performance, and bringing these to the attention of trustees, the Just Pensions Program is hoping to encourage trustee activism. As boardrooms receive pressure from their shareholders to take social and environmental risks into account, trustees may well start seeing the improvements they are looking for in overall company management.

For more information please contact:
Meg Brown, Sector Analyst, Just Pensions:
T: 41 20 7440 9711
or
E: MegBrown@uksif.org

The food and other sector notes and recent survey are available online at:
http://www.justpensions.org

2004 Ethical Investment Association Conference

Louise O'Halloran, Ethical Investment Association

This year's International Ethical Investment Association Conference brings together world experts to quantify the financial impact of environmental, social and governance issues on portfolio risk and return.

The Conference will explore the nexus between sustainability and stock price, and embrace a broad range of issues having a significant impact upon shareholder value, including: corporate fraud and mismanagement; rising oil prices; the cost of carbon; class actions related to discrimination, asbestos, tobacco and obesity; weather related disasters; water scarcity; environmental accidents; civil and shareholder activism; and costly prudential requirements.

Keynote Speakers include Dr Matthew Kiernan of Innovest Strategic Value Advisors, who was recently in Australia to launch the second Carbon Disclosure Project, and Dr Stephen Davis who is Co-Founder of Governance Metrics International and a Governor of the International Governance Network that represents the interests of institutional shareowners with $USD10 trillion in assets. Filip Corten from Dexia Asset

Management in Brussels will speak about the company's research provider, the renowned Ethibel Group and the impact of social issues on portfolio value. Appearing via satellite will also be leading players in the powerful Institutional Investors Group on Climate Change (IIGCC) including James Cameron, Chair of the Carbon Disclosure Project.

Where, When & How?
14 and 15 October 2004, Telstra Dome, Melbourne

For further information please contact:
Louise O'Halloran, Executive Director, Ethical Investment Association
T: 61 2 8224 0314
or
visit the EIA website at:
http://www.eia.org.au

Australian Sustainability Reporting Survey

Stirling Habbitts, KPMG

The Commonwealth Government Department of Environment and Heritage has recently released a new survey on the State of Sustainability Reporting in Australia, conducted by the Centre for Australian Ethical Research (CAER), KPMG Environment and Sustainability Services, and Deni Greene Consulting.

The survey covered sustainability reporting within a sample of 500 companies, made up of the S&P/ASX 300, the top 100 private companies and the top 100 public unlisted companies. A total of 116 of the companies surveyed produced a sustainability report during 2003, a rate of just under one in four of Australia's top companies. A broad range of corporate non-financial reports was considered under the heading of 'sustainability reports', including triple bottom line reports, environment reports and community reports. The 116 reports include 84 stand-alone reports, 21 sections of Annual Reports, and 11 website sections.

The survey included a breakdown of sustainability reporting by sector, and revealed that the highest reporting rate was in the Electricity, Gas and Water Supply sector, with 53 percent of companies surveyed in this sector producing reports. Of the companies in the Finance and Insurance Sector that were surveyed, 22 percent (13 out of 59 companies) produced some sort of sustainability report in 2003.

The companies' most widely cited benefit of producing a sustainability report was 'reputation enhancement'. The survey also revealed a steady increase in sustainability reporting in Australia in recent years, with approximately 15 new companies reporting each year since 1996.

For more information please contact:
Stirling Habbitts, Manager Environment and Sustainability Services, KPMG:
T: 61 2 9335 7000
or
E: shabbitts@kpmg.com.au

To view the full survey, please visit:
http://www.deh.gov.au/industry/corporate/reporting.

UNEP FI International Update

HVB Group and Sustainable Finance in Central and Eastern Europe

Regina Kessler, UNEP FI, Geneva

In 2004 UNEP FI has started to expand its activities to Central and Eastern Europe. HVB, and its subsidiary, Bank Austria Creditanstalt, has been one of the initiating institutions in the effort of building up a Task Force for sustainable finance issues in this region.

HVB Group is the largest banking group in Central and Eastern Europe with subsidiaries in 15 Central and Eastern European countries. In addition, HVB is one of the most progressive institutions in terms of adopting environmental and sustainability aspects into business operations. HVB Group and its constituent organisations were among the first signatories of the UNEP FI Statement in 1992. Today HVB Group is included in the Dow Jones Sustainability and

FTSE4Good Indices, and has adopted the Equator Principles in its project financing policies.

It is believed that the biggest challenge for financial institutions in terms of sustainability in the Central and Eastern European (CEE) region is the handling of environmental credit risks. EU environmental laws are demanding greater responsibility and liability of financial institutions and often, existing differences in national regulatory schemes makes a uniform credit risk approach difficult in the CEE countries.

Environmental risks pose challenges to lending in CEE countries, but can also create opportunities, with contaminated property just being one example. If contaminated sites can be cleaned up, existing infrastructure and land can be re-used. This is beneficial and more cost effective for banks, clients, the environment and civil society in general. As site contamination is one of the major environmental challenges in Central and Eastern Europe, Bank Austria Creditanstalt is a member of the EU project CABERNET (Concerted Action on Brownfield and Economic Regeneration Network), which is an expert network that facilitates sustainable solutions for urban brownfield industrial sites.

The UNEP FI Central and Eastern European Task Force (CEETF) plans to develop an information platform for identifying and managing environmental credit risks in the region. The aim is to provide users with critical up-to-date country and sector-specific information on environmental risks in the CEE region which will allow credit specialists to make fully informed decisions on the kinds of environmental risks associated with a transaction and how these risks can be mitigated. The information platform will offer country and sector specific links to existing environmental credit risk management resources, checklists for credit specialists, questionnaires for clients and contact details for environmental experts. A training program on environmental credit risk management will accompany the implementation of the platform.

For more information on the CEETF, please contact:
Regina Kessler, UNEP FI Geneva:
T: 41 22 917 8689
or
E: Regina.KESSLER@unep.ch

For more information on CABERNET, please visit its website:
http://www.cabernet.org.uk

Latin American Task Force

Mareike Hussels, UNEP FI, Geneva

The Latin American Task Force (LATF) had its first meeting on July 1 and 2 in Lima, Peru. The event was attended by 19 participants - LATF members, observers, and invited guests - with another 5 joining by conference call for part of the meeting.

The meeting served to consolidate the LATF, which had not met previously, and to agree on its Terms of Reference. It also provided an excellent opportunity to start building a local financial institutions network in Peru, and most importantly to further define the focus and work program of the group. A range of presentations providing perspectives on sustainable finance such as SRI, microfinance, and sustainability ratings in various countries in Latin America provided plenty of food for thought and lively discussion.

Concrete outcomes of the meeting include:

- An amended version of the LATF Terms of Reference;
- Agreement on 4 priority areas for initial activities:

Communication, Training, Standards for Credit Risk, and Communicating the Business Case; and
- The formation of a network of contacts in the Peruvian financial sector, including regulators and the Peruvian Bankers Association.

Over the coming weeks the secretariat will coordinate with members of the group to identify appropriate individuals or institutions to fulfil the role of LATF chair, co-chair, and project chairs to drive activities in the above mentioned priority areas. Furthermore, the secretariat will solicit applications for the formal establishment of the LATF advisory group.

For further information please contact:
Mareike Hussels, UNEP FI
T: 593 2 292 0635 ext. 109
or
E: mareike.hussels@unepfi.net

Documentation of the meeting is available online at:
http://www.unepfi.net/latf/

New UNEP FI Signatories:

- Alpha Bank (Greece)
- BNP Paribas Asset Management (France)
- Development Bank of Southern Africa (South Africa)
- Japan Bank for International Cooperation (Japan)
- Kookmin Bank (Korea)
- MECU (Australia)
- Nedbank (South Africa)
- OTP Fund Management (Hungary)
- The Bank of Tokyo-Mitsubishi (Japan)
- Woori Bank (Korea)

CONTACT US

If you would like to write an article or receive a copy of the next edition of the Australasian UNEP Finance Initiative Newsletter please contact:

Helen Bloustein
T: 61 3 9695 2687
or
E: unep.fi@epa.vic.gov.au

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EPA
VICTORIA

UNEP FINANCE INITIATIVE - AUSTRALASIAN LIAISON OFFICE
EPA Victoria 40 City Road Southbank Victoria 3006
GPO Box 4395QQ Melbourne Victoria 3001
Telephone 61 3 9695 2687 Facsimile 61 3 9695 2578

http://www.epa.vic.gov.au/programs/UNEP

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