The first Western European Forum was convened to build on previous events in the region, such as the European Seminar on Finance, Environment and Sustainable Development held in Paris in January 2003. The aim was to provide European Signatories, a key section of UNEP FI’s membership, with a renewed space to obtain and exchange information on a number of key sustainability issues specific to the finance and insurance sectors.

The Forum was attended by Signatory organisations from a total of 12 European countries and proved to be an adequate means for bringing together Signatories and partners from the region and thereby responding to the need for exchanges on the regional level. On this basis UNEP FI will endeavour to maintain the Forum as a yearly occurrence that would travel within Europe. Meetings and exchanges taking place on a sub-regional and national level would be geared to feed into the overall, region-wide Forum.

This report provides the key points made by each of the speakers as well as detailed transcripts of the questions & answers periods which followed each session. The speakers’ presentations are available online on the UNEP FI website.

Acknowledgements
UNEP FI would like to thank both Antonio Massanell Lavilla, Senior executive Vice-President and President of the Environmental Committee, la Caixa, and Hanns Michael Hoelz, Deutsche Bank, for their support of the Western European Forum.

The Forum was hosted by la Caixa just two years after the company joined the Initiative, while Deutsche Bank’s support tops five dedicated years at the head of UNEP FI’s Steering Committee.

UNEP FI would also like to thank the speakers for their valuable inputs and the attendees for their participation, both of which contributed to making this event a success.
Luís Rullán, Senior Vice President, La Caixa

After officially welcoming participants, Luis Rullán briefly introduced la Caixa, one of the main financial institutions in Spain, and which has just celebrated its 100th anniversary.

La Caixa’s aims are not just financial but also social: founded in April 1904 its initial goal was to provide security to the less well-off. This social concern has been maintained and remains a key element in the institution’s success. According to its current by-laws, la Caixa’s corporate aim is to encourage all forms of savings, to foster beneficent work for the well being of the community and to invest related profits in safe and profitable assets for the general interest.

La Caixa carries out three main types of activity:

- banking (universal banking) – 9.2 million customers, including individuals, companies, and numerous SMEs. Types of subsidiaries include: banks, credit establishments, insurance, mutual funds, management companies.
- investment - current portfolio of 11.6 billion euros. Diverse sources of income chosen according to following criteria: security, stability and profitability. Strategic sectors chosen, such as: infrastructure, energy, telecommunications and real estate.
- community – 1.2 billion euros in 2004, 25% of which to finance community projects and with a priority for socially oriented projects dealing with marginalisation, integration, and the elderly. This is the ultimate aim of la Caixa – the reason it was created and its ongoing raison d’être. In 2007 it is aimed that 72% of the total budget should meet new community needs.

La Caixa’s social commitment includes providing services throughout all parts of Spain, however remote, and to reach out to all levels of society. This includes a microloan scheme initiated last year to facilitate housing rental for the young and the elderly. In one year a thousand loans have been issued, totalling 1.2 million euros.

La Caixa’s Strategic Plan for 2003-2006 aims at implementing the triple bottom line approach in its operations.

Hanns Michael Hoelz, Managing Director, Global Head Sustainable Development, Deutsche Bank

As a member of the UNEP FI Steering Committee – SC having chaired the SC for five years, Michael Hoelz briefly introduced UNEP FI as a leading institution in the area of finance and sustainability and reflected upon the strong added value brought by membership to the Initiative.

Deutsche Bank’s – DB activities and approach to sustainability were then described, highlighting DB’s commitment to fulfilling its responsibilities as a corporate citizen by integrating sustainability issues (including environmental concerns) directly into the company’s risk management processes.

DB is a firm believer in the impact of business activity on the natural and social environment and has performed well in managing this impact, as shown by ratings by indices and research institutions. DB also complies with key ISO norms and is a member / partner in numerous organisations and initiatives. Moreover, DB’s sustainability work is shown to be well-functioning by a number of audits; it is seen as creating benefits for all stakeholders.

“The on-going success of la Caixa is based on the key principles of honesty, trust, solidarity, social commitment, and human values – which have been passed on from generation to generation within the company”

Luís Rullán, La Caixa

“The sustainability experts react positively to microfinance while financial managers tend to be less engaged. There remain some barriers in seeing microfinance as a normal product.”

Hanns Michael Hoelz, Deutsche Bank
Microfinance: a New Commercial Investment Opportunity?

Jean-Philippe de Schrevel, Founder and COO, Dexia/BlueOrchard Finance s.a.

- Microfinance is an integral yet largely untapped market, thus providing a clear commercial investment opportunity (big demand for a whole series of products, dynamic, fast-growing, low volatility, limited credit risk and insulation form macroeconomic shocks).
- Microfinance can be seen as a new asset class for the financial sector, with a unique combination of social and financial returns.
- Key role of local microfinance institutions as specialised intermediaries that hold the local knowledge.
- Key challenge: foreign exchange risk, which can impede access to entire regions.
- Blue Orchard and Dexia microcredit programmes: Dexia Micro-Credit Fund (total assets US$60 million) and BlueOrchard Microfinance Securities (total assets US$80 million).

Microfinance: a Way to Reduce Poverty?

Vincent van Assem, Senior Vice – President, ABN AMRO Holding N.V.

- ABN AMRO’s position: firm belief in microcredit as one of a variety of tools for addressing poverty issues – is included in the company’s approach to sustainability.
- ABN AMRO’s microfinance schemes targeted specifically at Brazil (joint-venture with Accion, loan portfolio of 1.8 million euro) and India (current loan portfolio 4.1 million euro).
- Action in further countries is planned.

Microfinance and Sustainability

Hanns Michael Hoelz, Managing Director, Global Head Sustainable Development, Deutsche Bank

- Dealing with emerging markets is both socially responsible and a manner of ensuring trade in the future.
- Microcredit was launched at DB in 1997 via the DB Microcredit Development Fund (US$3.4 million invested so far); loans are directed at local Microfinance Institutions – MFI.
- DB recently launched the Global Commercial Microfinance Consortium, which brings together all involved participants: local Financial Institutions – FI, MFIs and micro-entrepreneurs, for the purpose of alliance building and knowledge sharing.
Session One

Q&As

Qualitative Risk • Microfinance • Climate Change

Finance, Environment and Sustainable Development

AMRO Holding N.V.

is needed yet. It depends
microfinance is often not seen as
development banking, including
Brockman
Comment Karl Ludwig

because it is fast-growing.
emerging product, it is attractive
simultaneously. Microcredit is an
lighted—microfinance involves
than ideal side has to be high-
are around break even now. The
aim is clearly to make it into a sound business.
Comment Hanns Michael Hoelz,
Deutsche Bank
Depending on who is approached the reaction is very different—sus-
tainability experts react positively while financial managers tend to be less engaged. There remain
some barriers in seeing microfi-
nance as a normal product. A
platform is needed to discuss and address the concerns, and to make it look like a regular busi-
ness line.
Response Jean-Philippe de
Schrevel, BlueOrchard Finance s.a
indeed the commercial rather than ideal side has to be high-
lighted—microfinance involves risks and returns like any other business. Financial and social
objectives can be delivered simultane-
ously. Microcredit is an emerging product, it is attractive because it is fast-growing.
Comment Karl Ludwig
Brockman, KfW Group
Development banking, including microfinance is often not seen as a purely market-based sector of
activity; there may be a business case but not always, it depends where—a lot of capacity building is needed yet.
Response Jean-Philippe de
Schrevel, BlueOrchard Finance s.a
BlueOrchard has activities in a broad range of countries including Kazakhstan, Mongolia, Uganda, etc. —there are opportu-
nities everywhere. There are differences in risk—so you provide different products depending on each client’s risk appetite, as for any other portfolio. No country need be excluded.
Question Jean Noël Guye, Axa
Group
What is the reaction in situations such as the December 2004 tsunami? Mainly small businesses, with nothing left... how do you deal with such a situation? What about microinsurance that could work together with microfinance?
Answer Jean-Philippe de
Schrevel, BlueOrchard Finance s.a
In such cases of total devastation investors are affected and portfo-
lío risk goes up. However there is also a tendency for very fast recu-
peration; such businesses are not heavily invested so financial losses are moderate. Business can pick
up again very quickly (in as little as 6 months) with very little
means. The same applies to finan-
cial market crises (eg. Indonesia, Ecuador).

Question Julie Hudson, UBS
Investment Bank
What exactly is the situation in terms of returns and default rates? Different people provide different
figures which creates confusion—if there were clarity it would be easier to convince institutional investors to become involved.
Answer Jean-Philippe de
Schrevel, BlueOrchard Finance s.a
There is indeed a need for better information, but this is a new sec-
tor with as yet not much consoli-
dated data, although this is start-
ing to come. Default exists but so far it seems minimal. It is true there are many “red flags” to
overcome when convincing investors (emerging markets, lending institutions, lending to the poor...), but the sector is fast growing and therefore very attrac-
tive.
Question Marcello Pellini,
Unicredito Italiano S.p.A.
How do you rate financial institu-
tions in terms of their social perfor-
ance? If not well managed there can a reputational risk. UniCredit Foundation started a microcredit project 3 years ago, a
special fund was created and steps were taken to promote employee engagement. (To Vincent van Assem) - does ABN AMRO have a system for building up corporate identity and values around its microfinance activities?
Answer Vincent van Assem, ABN
AMRO Holding N.V.
employees are encouraged to participate, including through vol-
untary action (over 10% of ABN
AMRO staff is involved in volun-
tary work). In the specific case of the December 04 tsunami, money was raised and a special fund was
created, however, when the com-
pany offered to send people to the field this was rejected. Overall there is still insufficient in-house knowledge regarding real practi-
cal development activities.
Question Anton van Elteren,
Netherlands Development Finance Company (FMO)
Microfinance can follow 2 models: individual loans or loans to collec-
tivities. Is there less non-perfor-
ance in collectivities? It is known that the latter sometimes creates negative social pressures...
Answer Vincent van Assem, ABN
AMRO Holding N.V.
Both can work, not all pressures are a source of problems.
Answer Jean-Philippe de
Schrevel, BlueOrchard Finance s.a
Both can work, it’s a question of using different approaches according to the context (cities, villages, etc.). You need to adapt to social and economic situations.

Question Karl Ludwig
Brockman, KfW Group
Do the microfinance-models to collectivities involve lending only or do they involve combined sav-
ings and lending approaches? The latter have been known for quite a long time e.g. in Bangladesh (Grameen Bank), and they exert strong social pressures on borrowers to pay back.

Speakers’ response The approaches presented mostly involve just lending.
Comment Hanns Michael Hoelz,
Deutsche Bank
There is difficulty in explaining the interest rate pyramid and the pro-
gression in the supply chain; a
perception problem remains. More explanation and education is needed.
Climate change

Risks & Opportunities for the Banking and Insurance Sectors

Thomas Loster, Chairman, Munich Re Foundation “From Knowledge to Action”

• Climate change is clearly happening and has real consequences, all over the world, causing natural disasters such as: floods, hurricanes and thunderstorms, heat waves, etc.
• Natural disasters are on the rise (therefore so are losses) and some of these are clearly linked to human activity. Even if the climate were stable the occurrence of catastrophes would rise as the overall population and population density increase.
• Insurance is a key actor in addressing climate change as it plays a large role in facing related economic losses.
• To face the surge in natural disasters new products are needed and have already started to emerge, but business isn’t booming yet – awareness, even in the public at large, is still insufficient.
• The necessary information for this, including disaster trends, can be captured statistically, namely by Munich Re’s NatCatSERVICE – a powerful tool for analysis and prediction.
• Brief introduction to the work of the UNEP FI Climate Change Working Group – CCWG.

Q&As

Question Jean Noël Guye, Axa Group
There seems to have been no major insurance reaction to climate change as yet – why?
Customers still need to present a demand for this – level of awareness is apparently still quite low.

Answer Thomas Loster, Munich Re
This partly reflects a psychological phenomenon – if a person’s house is flooded once, they tend to think, “it happened once, it won’t happen again”. Climate change disasters have to happen repeatedly before there is a change in customers’ perception of insurance needs. The chances are that this will indeed be the case.

Question Anne-Françoise Lefèvre, European Savings Banks Group/World Savings Banks Institute
Can you / how do you insure a risk that you can’t fully measure?

Answer Thomas Loster, Munich Re
In the case of climate change measurements are made in terms of the number and scale of events. There are many of them and the statistics are available, it is also quite easy to extrapolate probabilities as far as weather conditions are concerned.

Question Natasha Landell-Mills, OTP Fund Management
The insurance industry is still waiting for the public to wake up to climate change realities, but do insurance companies not also have an interest in actually promoting greater awareness, e.g. by offering reduced premiums for those who take positive action?

Answer Thomas Loster, Munich Re
Insurance schemes have already changed in reaction to a number of events (for instance in Jamaica, following Hurricane Gilbert). However, business logic also goes in the other direction – in Germany there are areas where the flooding risk is too high and no insurance will get involved. In those cases the role of the government is important.

Question Vincent van Assem, ABN AMRO Holding N.V.
Demand in Europe seems to be up, but not in the US – why?

Answer Thomas Loster, Munich Re
This seems to be linked to the people’s psychology, or the “American way of life”. The situation in the US seems to be very special. Even three hurricanes in a row hitting Florida, like in 2004, seem to have no impact on people’s psychology. But one day, if weather disasters become even more clearly visible, awareness will be raised.

Comment Jean Noël Guye, Axa Group
The sheer magnitude of climate change will eventually do the trick – as people see the effects, and unprecedented events take place there will be a reaction.

“Climate change disasters have to happen repeatedly before there is a change in customers’ perception of insurance needs.”

Thomas Loster, Munich Re
Identifying and Quantifying Potentially Material Issues

Julie Hudson, Head SRI Research, UBS Investment Bank

- The UBS SRI Team was created in response to client demand for more SRI research. It builds on previous research and activities in the field by UBS, such as approaches to strategy and valuation.
- UBS’s approach to social issues is to view them as potential conflicts of interest between stakeholders. If they’re not resolved in a balanced way, then costs might be unfairly distributed.
- One way to approach social issues is to define them as potential corporate social liabilities; this is also the approach the EPA takes with respect to environmental liabilities. The really important point is that there is scope to take pre-emptive action, to avoid or reduce the risk.
- Once a potential liability has been anticipated firms may even need to change their business models to resolve the issue. Solutions lie at the heart of the business. Socially Responsible Investment – SRI cannot be dealt with as a disconnected issue.
- One of the major difficulties in anticipating liabilities / costs is that of how to quantify them. Some things simply can’t be valued, so the limitations of any valuation attempt have to be recognised. One way of looking at the financial risks is to view CSR “liabilities” as simply another claim on enterprise cash-flow, competing with equity, debt, pension funds and so on. If the market hasn’t yet recognized a potential corporate social liability, when it does, the value of other claims may decline.
- The way each industry seeks to integrate SRI / Corporate Social Responsibility – CSR issues necessarily differs depending on the way it is structured.
- The incentive to deal with different issues will vary, sometimes costs should be shared. This means that the private sector cannot be expected always to take the lead – hence the need for joint private-public action.

Challenges in Valuing ESG-Related Risks and Opportunities: Reflections of a Fund Manager

Jennifer Kozak, Research Manager, Insight Investment Management Limited

- Insight’s definition of responsible investment embodies 2 key concepts: enlightened shareholder value (taking account of Environmental, Social and Government – ESG issues that could have material impacts on companies’ earnings and/or share price) and responsible ownership (using rights associated with ownership to engage with companies). Insight believes that companies that manage ESG issues well will enjoy more sustainable, long-term returns.
- ESG issues need to be integrated into mainstream analysis: by analysing the potential effects of ESG issues on investment value drivers such as regulation risk, legal liability, brand value/reputation risk, etc. or by exploiting market inefficiencies (taking advantage of market over- or under-reactions).
- Many currently material ESG issues are already being taken into account by mainstream analysts (for example, tobacco and asbestos liabilities), but the language is still focusing on “risk”.
- Current broker research tends to be focused on short-term, easily quantifiable issues. However, many ESG issues are longer-term in nature, intangible, etc. – difficult to value.
- Need more of this type of research - UNEP FI’s materiality research is encouraging this.

Screening for Qualitative Risks in Emerging Economies – Central and Eastern Europe Case-Study

Natasha Landell-Mills, SRI Advisor, OTP Fund Management

- Brief presentation of OTP as a market leader in Central & Eastern Europe – CEE.
- Incentives for identifying and addressing qualitative risks: increasing regulatory pressure (in the case of the CEE – the acquis communautaire) and increasing customer demand.
- Identification of key corporate governance, environmental and social risks in CEE; the first legal suits have been filed and are being extensively copied.
- While ESG related risks are real and need to be addressed, there are also real opportunities in dealing with them, including the possibility of developing a competitive advantage (customers ready to pay extra for ESG sensitive products).
Comment Karl Ludwig Brockman, KfW Group
For KfW there is a need, given the regulatory prescriptions, to collect data on “operational bank risks”. In this framework, the treatment of qualitative risks can be and – in the case of KfW – are addressed.”

Question Anne-Françoise Lefèvre, European Savings Banks Group/World Savings Banks Institute (To Jennifer Kozak) How do you explain financial analysts’ lack of CSR awareness?
Answer Jennifer Kozak, Insight Investment
In many cases this is in fact a “perceived” gap (for instance in the language). The real gap lies in the fact that analysts and brokers tend to be short termists given the nature of the sector, while CSR issues fit within a longer term vision – their materiality isn’t immediate. That is the gap that needs to be bridged.

Comment Anton van Elteren, Netherlands Development Finance Company (FMO)
The challenge with CSR issues is that they are perceived to require extra work and time on due diligence in order for everything to be taken into account: environmental, social, corporate governance factors.

Question Jean Noël Guye, Axa Group
Is there any evidence that corporate performance is better when CSR issues are taken into account? If so then the extra work is worth it!
Answer Jennifer Kozak, Insight Investment
In the U.S. the performance of SRI indexes (such as the Domini Social Index) has been compared against mainstream benchmarks (such as the S&P Index) – studies have not shown material under- or over-performance. Less information is available on the performance of individual companies. Innovest research links good environmental management with performance. Deutsche Bank’s Beyond the Numbers report links good corporate governance with out-performance.

Comment Julie Hudson, UBS Investment Bank

Comment Natasha Landell-Mills, OTP Fund Management
There has been a study which tried to compile all past studies and showed there is a possible relationship between better ESG behaviour and business performance. One of the challenges with this kind of empirical research is that the results you get will depend on the approach to SRI you use. SRI is a term used to describe a growing number of investment styles, from negative screening to positive selection. It is hard to therefore aggregate these approaches and get meaningful results. Another key weakness of existing research is that it is backward looking, yet many of the drivers for improved performance related to CSR are new and increasing.

Comment Julie Hudson, UBS Investment Bank
There is also the issue of the active versus the passive fund/asset management industry. It is widely recognised that it is impossible for the average fund manager to beat the index owing to research costs, and also widely recognised that it’s difficult to prove out-performance due to the same problem of risk models just mentioned. However you could say that research has a “social” value of its own – by providing information to the market you could say that it serves to make markets more efficient. You can’t necessarily prove that SRI helps you to outperform an index, but this inability to “prove it” doesn’t render it less valid than any other active portfolio management approach.

Comment Tomas Conde, BBVA (To Julie Hudson) When can we expect these issues to start being mainstreamed rather than just kept on the CSR specialists’ desks?

Answer Julie Hudson, UBS Investment Bank
I think CSR issues already regularly appear in the mainstream. There is still a problem with the gap between short term and long term thinking, of course.

Comment Anne-Françoise Lefèvre, European Savings Banks Group/World Savings Banks Institute
A communication from the European Commission is due in the coming months on CSR, including recommendations on SRI and awareness raising via a vis consumers and investors by the financial sector. So policy pressure is on the way.

Question Kiki Lawal, UNEP Finance Initiative
(To Julie Hudson) How is it exactly that corporate strategy and SRI can be separated?
Answer Julie Hudson, UBS Investment Bank
Corporate strategy is what a company plans to do in terms of its business model. Corporate strategy has social as well as financial consequences. Let’s take a hypothetical example of a consumer industry in which the biggest firm decides to lead on price. The value proposition is to deliver best price to the customer. This strategy may have both financial and social consequences for the supply chain. The competitor in the same consumer industry wishing to deliver the value proposition of “responsible supply chain” must either change consumer preference (perhaps even for the entire industry!), or must find some way of reducing operating costs elsewhere so that a higher cost supply chain approach is affordable, within the business model. The point is the overall strategy has to work for the CSR approach to be viable; and conversely for the corporate strategy to be viable in the medium term, decisions need to be made on CSR issues as the strategy is put together, rather than waiting until “potential CSR liabilities” start to emerge. In sum, if the business model isn’t working, the social aspects won’t work – the two things cannot be separated.

Comment Jennifer Kozak, Insight Investment
Climate Change is a good example – companies are being asked for their strategy on this... everything is pointing towards the need to mainstream.
General Introduction to the Latin American Task Force – LATF

Tomas Conde, Manager of Corporate Social Responsibility, Chairman’s Office, BBVA

• The UNEP FI LATF provides a network for Latin American Signatories to exchange ideas and best practices, also helping to set sustainability priorities for the financial sector in the region and promoting their achievements via capacity-building and training.

• The activities of UNEP FI in conjunction with the General Reporting Initiative – GRI, feeds in very usefully into the LATF’s work, in particular regarding the Financial Service Sector Supplement, which provides easy to use standards and indicators for measuring sustainability performance.

Supporting Financial Institutions to Finance Sustainable Development

Anton van Elteren, Senior Environmental Specialist, Investment & Mission Review, Netherlands Development Finance Company (FMO)

• The work of FMO is aimed specifically at promoting development in emerging markets via capacity building for the private sector (for both companies and financial institutions).

• FMO’s Environmental and Social Management System involves carrying out assessments to minimise risk and maximise added value & development; there is an established/standard environmental and social procedure integrated into credit processing.

• Capacity-building is seen as a key mechanism; FMO has set up a special sustainability course for FIs – this includes laying the foundations for participants’ own sustainability policies, as well as an introduction to UNEP FI. It also includes a 6 month follow up/implementation period for further fine tuning and training.

Summary of Ideas

• There is a clear business case both for responsible products such as microfinance and for generally identifying and addressing qualitative risks; demand is on the rise and markets are largely untapped.

• Environmental, social and governance – ESG considerations cannot be dealt with as a separate issue; financial institutions need to involve these directly into their mainstream activities. This may involve a complete revision of companies’ business models.

• There remains a significant amount of awareness building and training to be done in order to convince investors to mainstream sustainability issues in their work.

• A key obstacle in taking ESG considerations on board is how to reconcile the long-term vision that this requires with the predominantly short-term approach implemented by financial analysts and managers.

Q&As

Comment Karl Ludwig Brockman, KfW Group

The FMO approach is resource intensive for both itself and financial institutions involved in the training, nevertheless it is necessary in order to secure sustainable finance.

Response Anton van Elteren, Netherlands Development Finance Company (FMO)

There has been no rejection so far on this basis, though the timing and number of people involved in training is sometimes subject to negotiation.

Julian Cabanillas Moreno thanked the speakers for the quality of their presentations and the attendees for their presence. He concluded that the secret lies not in changing what we do but in constantly striving for excellence in what we do. The “triple P” is the way forward not only in terms of sustainability, but also for long-term returns. Julian welcomed the holding of the first Western European Forum as a timely coming together of like-minded and visionary people.

For any questions and/or clarifications please contact the organisers at the UNEP FI Secretariat:

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