The Environmental Responsibility of Banks

Meeting investors’ expectations

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Outline

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- The New Risk Reality
- CSR Reporting
  - Challenges for Financial Institutions
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Det Norske Veritas (DNV)

- An independent foundation established in 1864
- Objective: ‘Safeguard life, property & the environment’
- 6,000 employees in 100 countries
- Provision of assessment and assurance services in:
  - Environmental, social and employee risk management
  - Health and safety risk analysis
  - Labour relations & human rights

CSR Experts:
- Verification of CSR Reporting
- Verification GHG – ETS
- CSR risk assessments
- Corporate Governance
- Fraud and Corruption
Core Competence

Managing risk

Maritime industry

Renewable energy sector

Food and beverage

Aviation

Oil and gas industry

ICT

Process industry

Automotive

Rail industry

General
DNV – Banking clients

- TANSAS
- BBVA
- HSBC
- TÜRKIYE İŞ BANKASI
- SANPAOLO.com
- MONTE DEI PASCHI DI SIENA
- BORSA ITALIANA
- Deutsche Bank

A Passion to Perform.
Risk – What has Changed?

Risk = expected value of the conditional probability of the event occurring * the consequence of the event given that it has occurred

- from local to global
- from calculative to subjective
- from legal to societal
- from financial to integral
- from micro to macro
- from months to generations
- from tangible to intangible
- from loosing money to loosing face
In the last 20 years the source of value has shifted from tangible to intangible assets with the turning point at the begin of the 1990s.
Reporting in the New Risk Reality

DRIVERS:

- **Internal**
  - New concepts of risk
    - Management on non financial issues is increasingly being looked at across the boards
    - Risk = business opportunity (General Electric)

- **External**
  - New requirements: Sarbanes Oxley Act; UN Global Compact; EU Accounts Modernisation Directive
  - The threat of mandatory non-financial disclosure
  - Stakeholder expectations: SRI/Mainstream analysts
The Expectations from the City

SOCIALLY RESPONSIBLE INVESTORS

- Information that is:
  - Accurate
  - Reliable
  - Material
  - Comparable
  - Verified

MAINSTREAM INVESTORS

- Same requirements as SRI analysts
  - +

- Information that links CSR performance with the value of the company
FT Sustainability Awards

- **HSBC** - Sustainable Bank of the Year
- **Banco ABN Amro Real of Brazil** - Emerging Markets Sustainable Bank of the Year
- **WestLB** - Sustainable Bankers of the Year
- **Citigroup/Banamex and Financiera Compartamos of Mexico** – Sustainable Deal of the Year
- **Credit Suisse** - Sustainable Energy Finance Deal of the Year
Problems with Reporting

CR Reporting on the increase BUT analysts face following barriers

Lack of:
- Comprehensiveness (Scope)
- Uniformity
- Background information
- Relative financial/production/fte data
- Data gathering methods
- Contextual information
- Negative data
- Link risk to value
- Information on stakeholder engagement
Problems specific to FIs

- The lack of a common worldwide standard
- Direct impacts versus indirect impacts
- The complexity of the financial sector
- An unwillingness to report sensitive information
Finding a Solution: GRI/UNEP FI Working Group

- **Objective:** To bring standardisation to how FIs report on their indirect environmental impacts

- **Approach**
  - It is all about stakeholder dialogue
  - Some members: Westpac, Standard Chartered, National Australia Bank, Deutsche Bank, Swiss Re, Friends of the Earth, Earthwatch, Germanwatch, Christian Brothers, CoreRatings
The steps
- Process started in 2003
- 2 preliminary meetings
- Public consultation - 2004
- Final meeting
- Launch: UNEP FI Roundtable, New York, October 2005
- Pilot project
  - Some members: National Australia Bank, State Street, Van City, Westpac, Zürcher Kantonalbank.
Some of the challenges we encountered along the way:

- **Terminology**
  - Definition of concepts such as ‘retail banking’, ‘assets under management’ or even ‘engagement’

- **Feasibility**
  - Indicators kept to a minimum

- **Quantitative v. Qualitative Indicators**
A closer look:

- F7 - Description of interactions with clients/investee companies/business partners regarding environmental risks and opportunities

- F13 - the ‘value of portfolio for each core business line broken down by specific region and by sector’
To Verify or Not Verify?

Trust

(CSR-, Triple-bottom-line-, GRI-reporting)
DNV Verification Criteria

Based on GRI and AA1000:

- **Completeness**
  - all information material to the stakeholders
  - 3 dimensions:
    - Operational boundary
    - Scope dimension
    - Temporal dimension

- **Reliability**, composed of
  - Accuracy:
    - sufficiently accurate and reliable
  - Neutrality:
    - presented in a balanced and unbiased manner
  - Comparability:
    - comparable over time and across organisations

- **Responsiveness**
  - the development and implementation of the stakeholder engagement processes.
DNV Verification Process Steps

- Define scope
- Gap analysis
- Perform actual verification
- Finalise verification report
- Issue assurance statement
More than Credibility

- Verification of CSR reporting does not only provide assurance to the information you are communicating but can also help you improve your CSR system.

- Common mistakes found during the verification process:
  - Data: double counting, wrong emission factors for CO2 emissions, manual errors during data transposition
  - Systems: no effective quality procedures, lack of trained staff, no objectives and targets
  - Reporting: no comparability, wrong representation of information, lack of materiality
  - Internal communication: codes of conduct not available in the local language, environmental departments and CSR departments not communicating effectively.
Conclusion

- It is becoming essential for business and investors to understand the complex picture of extra-financial risks and opportunities.

- Addressing environmental and social issues is now considered critical to the proper management of transaction, portfolio and reputational risks.

- Question is no longer whether banks *should* address the sustainable development aspects of the activities they support, but *how* they should do it:
  - What standards?
  - Implementation mechanisms
  - Assuring
  - Comprehensive risk based strategy

- There has been some improvement in the last 2 years, BUT STILL A LOT TO DO!
Conclusion – The Added Value of Assurance

- Contribution to the company’s reputation / brand value
- Obtaining greater credibility with internal and external stakeholders
- Protection against (potentially hostile) external scrutiny
- Competitive positioning against peer group
- Identifying opportunities for improvements as well as strengths, in both your sustainability report and your reporting system
- It delivers value: reputation, licence to operate, avoidance of penalties
- Reassuring the board that the company’s CSR strategy is being implemented effectively and addresses key business concerns such as risk (legal compliance), financial best practice, reputation and competitive advantage
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