Financial Institutions and Sustainability

Amol Titus
Head Risk Analysis & Sustainability
Bali climate change conference and corporate responsibility

A committed group of cyclists has stolen the lead over the Indonesian corporate sector in demonstrating their concern for the environment. Flaged off by President Susilo Bambang Yudhoyono, the group has begun a 1,436-kilometer ride called Bicycles for Earth Goes to Bali, aiming to reach the island in time for the United Nations Climate Change Conference scheduled to be held from Dec. 3-14.

The significance of this high profile conference is evident. First, it caps a year seen growing political and concern over the alarming rate of deforestation, loss of biodiversity and the Intergovernmental Panel on Climate Change (IPCC) report. Second, it is a country which is on the front line of climate change, with vulnerable coastal areas and the impact of rising sea levels.

Third, it is a test case subject for corporate social responsibility. The Bali Conference will be the first to see a variety of corporate initiatives and the recognition of the role companies can play in addressing climate change.

And yet despite the significance of the conference, business is still at a stage where it is critical. Unlike the inspiring stories of companies stepping up to the plate, there are still those who remain reluctant to make a commitment.

This is why corporate sector involvement is so crucial. It is an opportunity and an indispensable part of the solution. Companies can contribute to the conservation of the world's biodiversity and the protection of the planet.

The challenge for companies is to ensure that their actions are not just greenwashing, but genuine contributions to the fight against climate change.

In conclusion, the Bali Conference is a key moment in the fight against climate change. It is a chance for companies to demonstrate their commitment to the environment and their role in shaping a sustainable future.

As we look towards the future, it is clear that corporate responsibility is crucial in addressing the challenges of climate change. Companies have a responsibility to act and demonstrate leadership in the fight against climate change.
Sustainability

Development which meets the needs of the current generation without compromising the ability of future generations to meet their own needs.

(UN Definition of Sustainability)
Sustainability at the Forefront – Global Warming

Hadley Centre

Temperature anomaly relative to late 19th century.
Sustainability at the Forefront – Climate Change

Source: WWF
Sustainability at the Forefront – NGO action
Sustainability Imperative for Corporates

- Environmental responsibility
- Economic responsibility
- Social responsibility

SUSTAINABLE DEVELOPMENT

- Viable
- Liveable
- Equitable
Environmental Due Diligence

- Develop guidelines and toolkits for high risk sectors like forestry, plantations, chemicals, mining, energy.
- Benchmark guidelines with international standards of UN, Equator Principles, World Bank/IFC, EU, ISO and Round Tables like RSPO.
- Enforce country specific compliances - PROPER
- Educate customers on higher standards related to pollution control, climate change, waste management, and sustainable raw materials usage.
- Monitor client progress on ‘credible path’ to compliance.

Incentivize Sustainable Business Development

- The response to climate change, cleaner technologies, alternative energy and waste management/recycling will result in business opportunities for the financial sector.
- Banks/financial institutions can act as the intermediary between buyers and suppliers.
- Opportunities arising from CDM (Clean Development Mechanism) and other framework also provide avenues for sustainable funding.
- There is vast potential to incentivize sustainable SMEs and this can make a big difference in encouraging widespread responsible behaviour.

Engagement with External Stakeholders

- There is considerable expertise on issues like climate change with stakeholders like scientific institutions, research bodies like IPCC, regulators, academic institutions and NGOs.
- Banks and financial institutions need to proactively engage with external stakeholders to develop an understanding of complex issues and tailor policies accordingly.
- Multi stakeholder groups like RSPO or WWF forest certification program offer practical solutions in challenging sectors.
- External stakeholders can help in implementation of best practices.

Environment as a CSR Pillar

- Environment compliance will increasingly impact an institution’s brand and reputation.
- Environmental CSR provides opportunities to communicate “green” vision and actions to customers, employees, regulators and the community as a whole.
- A partnership approach involving employees and customers can help maximize reach and benefits.
- Financial institutions need to determine their own “carbon footprint” and demonstrate their own progress in reducing emissions, energy use, sustainable sourcing practices and enlightened employee behaviour.
We believe that climate change represents the largest single environmental challenge this century and that financial institutions will play an important role in the shift to cleaner energy.

“Climate change confronts us all, making the duty to protect the world’s finite resources one that applies to governments, businesses and individuals alike”

(Stephen Green, Group Chairman, HSBC Holdings plc November 2007)
Why Climate Change matters to Financial Institutions

- Climate change is happening and is urgent
- Our 125 million customers around the world will be affected by climate change
- We need to support them in managing climate risks
- We can finance the shift to low carbon technologies
- Climate change can be tackled without damaging economic prospects
- There is a wide range of options for reducing emissions
Climate change: The Stern review

“We have the time and knowledge to act, but only if we act internationally, strongly and urgently”

(Sir Nicholas Stern)

- CO₂ emissions: reduce by 80% by 2100
- Technically and commercially viable solutions exist
- Costs of doing so now: 1% of global GDP (USD184bn)
- Costs of doing nothing: 5-20% of global GDP by 2050
We will not provide financial facilities, including any debt or equity capital markets activities and advisory roles, in respect of:

- Commercial logging operations in primary tropical moist forest or high conservation value forest; logging operations in violation of local or national laws; or logging operations that include any species listed in CITES (Convention on International Trade in Endangered Species of Wild Flora and Fauna) Appendix I.

- Companies that purchase, trade or process timber from the above sources.

- Projects located in, and which significantly degrade or convert, critical natural habitats.

We prefer to deal with customers who are either operating managed forests certified by the Forest Stewardship Council (FSC), or the equivalent standard, or trade in products that are FSC-certified or the equivalent. We will also continue to do business with customers who are following a credible path towards attaining FSC or equivalent standard within five years. Where customers are not on such a path, we will consider withdrawing from the relationship.
**DIRECT IMPACT MANAGEMENT**

- Reducing HSBC Group’s direct environmental impact from building and business travel including energy, waste, water and carbon dioxide emissions, and incorporating sustainability into purchasing decisions.
- Managing the Group’s carbon neutrality policy and offering guidance on managing, reducing and neutralizing carbon dioxide emissions.
- Communicate progress in a transparent way to internal and stakeholders.

**INDIRECT IMPACT MANAGEMENT**

- Sustainable Risk Management – Developing policies and standards (including credit guidelines) in relation to the banks sustainability risks with respect to lending and investment businesses.
- Develop specific policies for high risk areas like Forest Land and Forest Products, Freshwater Infrastructure, Chemicals, Energy, Mining and Metals.
- Managing adherence to the Equator Principles and Defense Equipment Policy.
- Sustainable Business Development – Identify opportunities that have an environmental and/or social dimension; identify ‘green’ retail, insurance, investment and micro finance opportunities.

**ENGAGEMENT WITH EXTERNAL STAKEHOLDERS**

- HSBC Climate Partnership USD 100 M 5 years partnership with The Climate Group, Earthwatch Institute, Smithsonian Tropical Research Institute and WWF.
- The largest ever single corporate donation to each of the charity partners and the largest employee engagement program (312,000 employees in 82 countries) by any organizations on climate change.
- The partnership aims to help HSBC employees use their business skills and climate change knowledge to build a more sustainable future.

**PHILANTHROPY & COMMUNITY INVESTMENT**

- Environment, Community and Education are three pillars of HSBC’s Corporate Sustainability program.
- There is strong focus on employee engagement and volunteering in the delivery of these programs.
- The bank seeks to work closely with our wide customer base in implementing sustainability initiatives like those on climate change.
- Education initiatives are implemented through specific programs like Future First.
- Group offices like HSBC Indonesia actively support and implement all major initiatives.
The 360 Degree Sustainability Approach

- Scientific Community (e.g. Smithsonian)
- Environmental Partners (e.g. Earth Watch, Climate Group)
- NGOs (e.g. WWF)
- Regulators
- Sustainability Risk Managers
- Employees
- Customers
- Philanthropy
HSBC’s Sector Specific Sustainability Guidelines

- Forestry
- Fresh Water Infrastructure
- Chemicals
- Energy
- Mining

(Best practices from International standards and conventions)
Sustainability Risk Assessment

- **HIGH RISK (A)**
- **MEDIUM RISK (B)**
- **LOW RISK (C)**
- **NO RISK (N)**

- **EQUATOR PRINCIPLES**
- **COUNTRY RATING**
- **ENVIRONMENTAL & SOCIAL ASSESSMENT**
- **CATEGORISATION TOOL**
- **WORLD BANK/IFC POLICIES**
- **SUSTAINABILITY TOOLKIT**
Sustainability Risk Assessment

- Non-Compliant
- Near-Compliant
- Compliant
- Leader

Commitment
Capacity
Track Record
Ratings Tool
Sustainability Toolkit
## Sustainability Risk Compliance

**Bank Indonesia PROPER - Program for Pollution Control, Evaluation & Rating**

<table>
<thead>
<tr>
<th>RATING</th>
<th>DESCRIPTION</th>
<th>INCENTIVE/DISCENTIVE</th>
<th>BI RATING</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>GOLD</strong></td>
<td>Clean tech, waste minimization, pollution prevention, conservation, etc.</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>GREEN</strong></td>
<td>Above standards &amp; good maintenance, house keeping, sludge management, etc.</td>
<td>Public praise</td>
<td>1</td>
</tr>
<tr>
<td><strong>BLUE</strong></td>
<td>Effort meets minimum standards</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>RED</strong></td>
<td>Effort does not meet minimum standards</td>
<td>Public pressure &amp; legal enforcement</td>
<td>2-4</td>
</tr>
<tr>
<td><strong>BLACK</strong></td>
<td>No pollution control efforts, serious environmental damage</td>
<td></td>
<td>5</td>
</tr>
</tbody>
</table>
Partnership Approach to Sustainability in Indonesia

- Multi stake holder approach involving customers, environmental experts, NGOs, regulatory bodies and associations
- Partners in Indonesia include WWF, Tropical Forest Trust, Tropical Forest Foundation, SGS, Certisource, ERM, URS Forestry, LEI, Smartwood and others
- HSBC is playing an active role in sector specific sustainability initiatives like RSPO
- The Bank wants to share best practices with other lending institutions and help create awareness amongst customer segments
Sustainability initiatives in Indonesia links to global HSBC Group commitments

- Strong Board level commitment to sustainability
- Sir Nicholas Stern, expert on climate change appointed as advisor to the Board
- According to Stephen Green, Group Chairman, climate change is the key issue facing humanity in the 21st century
- Sustainability is closely linked to reputational risk
- USD 100 Million global program over 5 years with partners like WWF, Earthwatch, The Climate Group and Smithsonian Institution
- Commitment to carbon neutrality and internal energy saving initiatives
As a first stage, net zero carbon emissions....

**HSBC is the world’s first carbon neutral bank**

We have 813,000 CO$_2$ to manage....
Step 1: Measure Sources of our CO$_2$ emissions

- Electricity 69%
- Air Travel 14%
- Road Travel 7%
- Other Travel 2%
- Gas, Fuel Oil 8%
Step 2: Reduce, Step 3: Buy Renewables
Global Environmental Efficiency Programme

- Minimising CO₂ in Hong Kong
- India’s coolest building
- Bricket Wood wind and solar trial
- Mexico City Head Office
- New York’s zero carbon branch
Step 4: Offset
Our 2006 offset portfolio

- HSBC purchased 813,000 carbon credits to offset 2006 emissions
- Three projects were chosen:
  - Hydroelectric Facilities in China
  - Energy Efficiency in Steel Making, China
  - Water Treatment in a Starch Manufacturing Facility in Thailand
Sustainability Challenges in Indonesia have Escalated
Sustainability Challenges in Indonesia have Escalated

- Deforestation – Riau, Heart of Borneo, Papua
- Endangered species and habitat issues
- Balancing development & economic growth with environmental issues – oil palm, bio fuels, mining, energy
- Country has moved from 21st rank to 3rd as contributor to greenhouse emissions – forest fires, peatland emissions, future coal fired plants
- Vulnerability to climate change – flooding, changing weather patterns, droughts
Sustainability Imperatives for the Future

- Partnership approach between stakeholders which is constructive
- Clarity and consistency in guidelines (e.g. “legality”)
- Alignment/Convergence of local with international standards (e.g. RSPO)
- Urgent and wider corporate engagement and financial sector support for progressive companies
- Educating Customers to modify behaviors – awareness levels and sustainable product options remain low
- Greater corporate involvement in conservation
Crisis = Danger + Opportunity
Sustainability is about Opportunity not just Risk

危 + 机

wei + ji
Investment Billions to support adaptation – Opportunity for Global Financial Institutions like HSBC

Indonesia can benefit from a **sustainable growth model**

- Given its abundant resources, Indonesia will command attention from resource-hungry economies/corporates.
- It can command a **sustainability premium** if it taps these resources responsibly.
- A sustainable growth model requires a drive for higher standards, balanced growth, strong policy & enforcement mechanisms, increased transparency and a multi-stakeholder approach.
- The financial sector has a key role and responsibility in such a sustainable growth model.
A five year, US$100 million programme to tackle the impacts of climate change on people, forests, water and cities
Awards and recognition...

Member of the Carbon Disclosure Leadership Index 2007

Top financial company in ethical business survey for 2006

HSBC - Winner of the Climate Protection Award 2007 for exceptional contribution to global environmental protection

FT ‘Sustainable Bank of the Year’ 2006
THANK YOU
Q & A