

United Nations Environment Programme Finance Initiative (UNEP FI)

Principles for Sustainable Insurance (PSI)



PSI

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UNEP

Finance Initiative

HSBC Progress Report 2013

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UNEP FI Principles for Sustainable Insurance (PSI)

Progress Report 2013

This document outlines our commitments and progress in 2013 towards implementing the Principles for Sustainable Insurance, highlights issues of importance to Insurance and our future aspirations. Our report articulates what sustainability means to HSBC and how we manage it, both in terms of incorporating aspects of sustainability throughout our business and how our sustainability commitments shape the way we do business.

Overview

Headquartered in London, HSBC is one of the world's largest banking and financial services organizations, with over 6,300 offices in both established and faster-growing markets. We serve around 54 million customers through our four global businesses: Retail Banking and Wealth Management, Commercial Banking, Global Banking and Markets, and Global Private Banking. Our network covers 75 countries and territories in six geographical regions: Europe, Hong Kong, Rest of Asia-Pacific, Middle East and North Africa, North America and Latin America. Listed on the London, Hong Kong, New York, Paris and Bermuda stock exchanges, shares in HSBC Holdings Plc are held by about 216,000 shareholders in 131 countries and territories.

Our aim is to be acknowledged as the world's leading and most respected international bank. We will achieve this by focusing on the needs of our customers and the societies we serve, thereby delivering long-term sustainable value to all our stakeholders.

As part of HSBC Holdings Plc, HSBC Insurance Holdings Limited provides a broad range of products and services to individuals and organizations worldwide with valuable protection against risks and ways to build future wealth. Insurance products are either underwritten by HSBC Insurance Companies or sourced from selected specialist insurance partners, and are available through banking, consumer finance and insurance subsidiaries through a variety of channels, including the internet, telephone and face-to-face. Insurance is a growing business for HSBC, with products positioned to help customers achieve their financial aspirations.

We have life manufacturing countries which include UK, France, Mexico, Argentina, Brazil, Hong Kong, Singapore and Malta. We have also joint ventures in China, Malaysia, India and Saudi Arabia. Where we do lack risk appetite and scale, we have entered into long-term exclusive distribution agreements with industry leaders in North and Latin America, Middle East, Europe and Asia.

Sustainability at HSBC

For HSBC, corporate sustainability means addressing the expectations of our customers, shareholders, employees and other stakeholders in managing our business responsibly and positioning it for long-term success.

Success for HSBC means providing our customers with the products and services they need and want, understanding and managing the impact we have on society and the environment, and investing in the future of our employees and the communities we serve. These measures help us to carry out our work in a way that is both commercially viable and ethically sound.

For further information on HSBC's sustainability policies, activities and performance see <http://www.hsbc.com/citizenship/sustainability>

UN Principles for Sustainable Insurance (PSI)

HSBC was involved in the original drafting and development of the Principles for Sustainable Insurance Initiative between 2009 and 2011 which was launched at the UN Conference on Sustainable Development (Rio+20) in 2012. The Principles represent a significant opportunity for our insurance business to take a further step toward meeting the expectations of our customers, shareholders, employees and other stakeholders globally.

Our expectation is that the Principles for Sustainable Insurance Initiative will become the global framework and standard by which the insurance industry can be measured on its contribution towards sustainable development.

With this aspiration HSBC Insurance Holdings became a signatory to the UN Principles for Sustainable Insurance with the support of Group Chairman, Douglas Flint, on 23 April 2013. This was stated in HSBC's Annual Sustainability Report 2012. We continue to align and develop similar initiatives in line with our stated sustainability programs and consequently we feel the PSI initiative is aligned with our values and that it should be a core principle of our Insurance business.

Our management team and Insurance Executive Committee are committed to this initiative and to progressively integrate environmental, social and governance (ESG) issues across our processes and geographies. We are also committed to disclose our progress in implementing the Principles on an annual and public basis.

Progress in 2013

Our progress under each Principle throughout 2013 is highlighted in following sections.

Principle 1: We will embed in our decision-making ESG issues relevant to our insurance business

- a) As a business within the HSBC Group, Insurance is participating in Group initiatives concerning our environmental footprint and the sustainability of our operations, management of sustainability risk as well as our community investment. A recent example of this is the active participation of Brazil Insurance team to HSBC Water Programme.

We are engaging with Group Corporate Sustainability team to agree specific actions in relation to Group initiatives.

Please refer to HSBC Holdings Plc Sustainability Report* for details of Group initiatives carried out throughout the year

Hsbc.com/citizenship/sustainability/reports-and-downloads

* The 2013 report will be published on 23 May 2014

- b) To continue driving forward and coordinating activities under each Principle as well as deliver on our reporting commitments as a signatory of the PSI, we are keen to dedicate the required resources and ensure the appropriate levels of monitoring are in place. Accordingly we have initiated a recruitment process at a global level within Insurance which will be followed by regional/local recruitment processes as required.
- c) In line with our approach towards sustainability, the fair treatment of customers is a key principle to HSBC. In supplying products and services to our customers Insurance is committed to ensure product and services coverage, benefits and costs are relevant, clearly explained and understood. Progress on this activity is achieved through two key initiatives: our value for money framework

implementation and the product simplification and standardisation work under our insurance range review.

- **Value for Money:** This initiative ensures that HSBC takes a globally consistent approach to assessing its insurance products' prices to the benefit of both the customer and the business. This approach underpins the work HSBC is undertaking to build a position of trust with customers by making the right decisions in product pricing, design and development.

We have developed a set of guiding principles and product frameworks to assess value for money for our customers and used these to review all of our wealth and retail insurance products globally (over 350 products). In addition, all new insurance products are now subject to the value for money minimum standards which have been integrated into our product development and product approval processes throughout the whole organization. Value for Money also includes third party and manufactured products and we are working together with our insurance partners so that this is implemented consistently.

Value for Money will continue throughout 2014 where we will embed this approach across all of our insurance product categories.

- **Insurance Range Review:** As part of our strategic direction we aim to make it easier for our customers to do business with us. To support this objective it is critical to have a simplified, globally standard and consistent product range. The Insurance Range Review project delivers on this objective. We have defined an acceptable range of products and product features globally and screened all of our markets to identify any differences to ensure alignment to this defined range. We also took into consideration market specific and regulatory conditions. As a result we have demised over 120 products worldwide. Our work on this initiative will continue throughout 2014 to ensure we have a streamlined product set in place with globally consistent solutions to meet our customers' needs.

- d) In Investment Management we are endeavouring to integrate ESG issues into our investment decision-making process. We are supporting the implementation of the Principles for Responsible Investment* (PRI) for the funds that HSBC manages on behalf of insurance and its customers.

* PRI is a framework for the institutional investment industry, which spans insurance and non-insurance institutions (e.g. pension funds, investment management companies, government reserve funds). Accordingly, their scope is only on investment management, which they address more comprehensively.

Please refer to HSBC Global Asset Management's Responsible Investment Transparency Report 2013/2014 for details of Group Initiatives carried out throughout the year which will be available on UNEP PRI web site.

Principle 2: We will work together with our clients and business partners to raise awareness of environmental, social and governance issues, manage risk and develop solutions

- a) At HSBC, we will endeavour integrate ESG issues into our working relationships with our Exclusive Strategic Partners (ESPs) and we will encourage our partners and other suppliers to disclose and report on ESG issues.
- b) We have a number of insurance / reinsurance partners across our business. Allianz, AXA, Aviva and Swiss Re are the top four insurance / reinsurance partners we are working with. All four are already signatories to PSI. We also work with Zurich, Metlife and QBE in several parts of the world. We have recently established a Partnership Management function within Group Insurance Head Office to further increase collaboration with our insurance / reinsurance partners. We will include PSI in the partnership management agenda, with the intent of identifying relevant joint

initiatives with Allianz, AXA, Aviva and Swiss Re and promoting PSI with all the other partners we have.

In line with our customer-centric strategy we have included all of our insurance products in scope for both our strategic projects Value for Money and Insurance Range Review - as detailed in Progress section for Principle 1 of this report. This involves third party insurance products in addition to those manufactured by HSBC. In order to succeed in our projects and align our approach towards sustainability we have been in constant contact with our insurance partners informing them about our priorities and approach to sustainable business. We have worked in strong collaboration with our partners to ensure we deliver on the required outcomes of Value for Money and Insurance Range Review projects.

- c) We believe that we can promote the adoption and implementation of the Principles through participation in relevant working groups and organizations. We have participated in The UNEP FI Global Roundtable and the PSI Annual General Meeting held in November 2013, in Beijing, China and voted to approve the strategy, priorities and projects for PSI.
- d) Creating awareness and focusing on education and training is one of the key areas we believe is critical to achieve progress on this initiative. Our focus will be to support the inclusion of ESG issues in professional education and ethical standards within the Insurance industry.

Principle 3: We will work together with governments, regulators and other key stakeholders to promote widespread action across society on environmental, social and governance issues.

- a) Insurance is providing support, where required and relevant, to group sustainability initiatives interacting with government, regulator and other stakeholders. The Group Corporate Sustainability team is our key point of contact in regards to upholding this Principle. We will engage with the Group Corporate Sustainability team to assess specific activities under this Principle in 2014.

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* The 2013 report will be published on 23 May 2014

- b) At HSBC our purpose is to help our customers fulfill their hopes and dreams and realize their ambitions, for themselves and their families, by enabling them not only to manage their financial affairs today but also to plan for their long-term financial future.

To support this purpose HSBC has commissioned a world-leading independent research study into global retirement trends called The Future of Retirement (FoR). For the past 8 years the FoR series of reports has provided authoritative insights into the key issues associated with ageing populations and increasing life expectancy around the world. Since the FoR programme began in 2005, more than 125,000 people worldwide have been surveyed.

In 2013, we have introduced two global reports in this series, *A new reality* in February and *Life after work?* in September. The latest report compares the real life experience of today's retirees with the views and expectations of those still working towards retirement. It also explores key retirement issues and provides practical steps that people can take to help secure a more comfortable retirement.

The FoR programme is centered on publishing global and country reports to raise consumer awareness and supported by the generation of editorial media coverage on the research findings



to reinforce it. Through FoR we are in a position to better understand and meet the needs of our customers and by leveraging research findings we are continuously improving our retirement planning offering. For example research from *A new reality* found that 64% of Brazilians have never saved for retirement. This alarming figure is what HSBC Insurance Brazil aims to address through its pension funds. HSBC Fundo de Pensão, Brazil's oldest pension fund, believes that good communication with its plan members is the key to promoting financial education and retirement savings. Lectures are held with plan members in order to explain the design of the plan, the different tax regimes and their impact over the accumulation period and upon retirement, as well as characteristics of the investment portfolios available and the importance of starting early to save. It is vital to HSBC Brazil to help people plan for their financial future, both to realize their dreams and to help them protect against the unfortunate events of life. HSBC Fundo de Pensão was recently awarded the best multi-sponsored pension fund in the country by World Finance Magazine.

Our focus on ageing populations within the FoR research allows us to constructively contribute to public debate on retirement and engage in active dialogue with key stakeholders. This includes influencing governmental / industrial policy using FoR findings in France with regards to recent pension legislation (2013) and in the UK as part of our recent submission to the Association of British Insurers (ABI) Retirement Study. Another example includes the use of FoR findings in The Geneva Association's global insurance industry think tank report on bancassurance 'Addressing the Challenge of Global Ageing – Funding Issues and Insurance Solutions' (www.globalageingchallenge.com)

For more information on FoR, visit hsbc.com/retirement

- c) Insurance is also working with regulators as required to drive key social issues. A strong example of this is the recent work to proactively review our credit protection insurance offering and the subsequent creation of a set of minimum standards applied across all of our markets.

Though this initiative was created as a response to regulators' concerns with the credit protection market generally in the US and UK - around sales processes, refund practices, complaints, claims handling, and the relative benefits to the businesses and consumers in offering the insurance - we have taken a proactive step of applying it on a broader scale across all of our markets around the globe (43 countries and 62 products were in scope). By adopting this approach our baseline minimum standards are now in line with the highest regulatory standards anywhere in the world to reinforce our commitment to full transparency and offering customer value.

The review concluded that a stringent set of minimum standards for credit protection insurance products is introduced through a mix of guidelines and indicators. These minimum standards ensure that our credit protection products provide value to the customer and a more controlled environment is in place. The result is a further strengthened and transparent set of products and propositions globally.

Principle 4: We will demonstrate accountability and transparency in regularly disclosing publicly our progress in implementing the Principles.

- a) HSBC Insurance is committed to participate in relevant disclosure or reporting frameworks including regular reporting through Group Corporate Sustainability disclosure.
- b) This is our first report since becoming a signatory on 23 April, 2013 and we are committed to regularly communicating our progress in implementing the PSI in a transparent manner.

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