

# Banks look to indirect impacts

With its limited direct environmental and social impacts, the banking industry was slow to embrace reporting. But sector leaders are now beginning to report on the much more significant effects of their lending and investment policies. **Paul Scott** and **Steve John** report

The banking sector came late to environmental and social reporting. In common with other service sectors, it was not, at first, subject to the same demands for accountability and transparency that forced industries with more dramatic impacts, such as petrochemicals and utilities, to publish stand-alone reports.

The growing realisation that the influence of finance – and the banking sector – was shaping environmental developments throughout business<sup>1</sup> led to a sudden flurry of reporting in the mid-1990s, particularly in Germany (see chart 1). This was facilitated by the development there of the first specific guidelines on reporting for the financial sector<sup>2</sup> (the VfU indicators) in 1996.

However, the majority of the 150 bank reports to date focus wholly on direct environmental issues (see chart 2). These might include the bank's resource use (energy and paper, for example), carbon dioxide emissions and waste streams. Reporting on such house-keeping issues is undoubtedly important, serving to demonstrate good management and often having associated benefits such as improving staff motivation.

But these pale against the sheer scale of banking's indirect environmental and social impacts. Banks' lending and investment policies can have significant effects – financing a single controversial dam project, for example, can have environmental and social consequences that dwarf those of a bank's policies on employee relations or energy efficiency.

Increasingly, these indirect impacts are seen in the context of sustainability and corporate social responsibility (CSR). Wider issues, such as social and development policies, are included. The World Bank's minimum social and ecological standards for project-related loans encompass issues such as protection of indigenous peoples, a ban on child and forced labour, and stakeholder involvement in project assessments.

Taking such standards as a minimum, many banks, in common with other financial institutions, are applying environmental and social filters for designated transactions, with the aim of ensuring their financial resources result in positive rather than negative impacts for the environment and society.

While these filters are often applied only to niche markets – such as socially responsible investment products – their benefits are a start: applying similar principles across the board is a slow but increasingly attractive process, as banks act to reduce their own risks.

Closer to home, bank support for businesses in under-invested areas can have a positive impact on economic regeneration and the fabric of the community – whereas branch closures can have the opposite effect. Both of these are significant indirect impacts.

Banks reporting with a CSR agenda can be expected to report on employee issues (gender ratios and minority issues, for example), community involvement, financial exclusion, human rights, risk management and stakeholder dialogue. The Co-operative Bank in the UK

has moved furthest in this latter category, with a series of reports detailing relationships with seven bank stakeholder groups, from customers to national and international society.

However, it is clear why the majority of bank reports still focus on direct environmental impacts, and why most reports are still purely 'environmental'. First, it is easier to measure and manage direct impacts than the more challenging sustainability/CSR issues. Secondly, there has been little guidance on how banks should address this latter wider and more thorny category.

European financial institutions – predominantly banks – have formed several alliances to discuss and explore reporting issues. To date, these have centred on direct environmental impacts:

□ In the UK, The Forge Group<sup>3</sup> published a comprehensive toolkit in November 2000 in *Guidelines on Environmental Management and Reporting for the Financial Services Sector*. An updated version of this document, including CSR issues, is due to be released this month.

□ In Switzerland, the original German VfU indicators are being developed further by a group including Credit Suisse Group and UBS. The new indicators are still expected to focus solely on direct environmental impacts<sup>4</sup>.

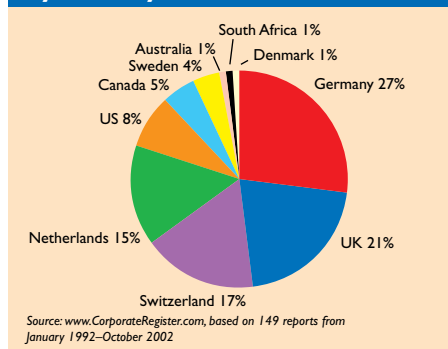
□ Eleven financial organisations, based in Germany and Switzerland, developed a set of environmental performance indicators during 2000, to assist in external reports<sup>5</sup>.

Breaking this mould, a further group of financial institutions, this time based in Australia, Germany, the Netherlands, South Africa, Switzerland and the UK, is looking at key performance indicators, which include CSR and social issues. The SPI-Finance 2002 initiative seeks to translate Global Reporting Initiative (GRI) objectives into financial sector guidance<sup>6</sup>. The project aims to deliver a final report and a financial industry sector supplement to the GRI Sustainability Guidelines by the end of this year.

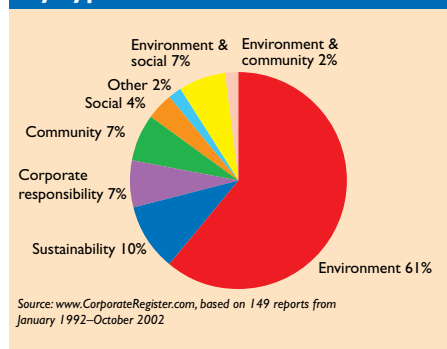
The first sustainable development and CSR reports from banks have emerged since 2000, with reports from such companies as Deutsche Bank (2000), Old Mutual of South Africa (2001), Sparbanken Sverige (2001) in Sweden and the Netherlands' ING (2002).

An analysis of seven of these reports – chosen to include a wide geographic spread – reveals that, for the first time, the focus is shifting to the indirect issues of how these banks manage the funds under their control. Indeed, Australian bank Westpac's innovative 2001 report gives only a cursory view of such

1. Percentage of bank reports by country



2. Percentage of bank reports by type



1 *Environmental Reporting and the Financial Sector – Draft Guidelines on Good Practice*. Department of Trade and Industry/Department of the Environment, UK, April 1996. This document highlighted the importance of the financial sector in moving business towards sustainability.

2 *Environmental Reporting of Financial Service Providers*, VfU 1996. See: [www.vfu.de/publish.reporting.html](http://www.vfu.de/publish.reporting.html)

3 Abbey National, Barclays, CGNU/Aviva, Lloyds TSB, Prudential, The Royal Bank of Scotland, Royal & Sun Alliance

4 See [www.vfu.de/english\\_index.html](http://www.vfu.de/english_index.html)

5 See [www.epifinance.com/project.htm](http://www.epifinance.com/project.htm)

6 See [www.spifinance.com/project.htm](http://www.spifinance.com/project.htm)

## Social and environmental impacts – what the sector leaders are reporting

✓ = topic included  
 ✓ = topic included in detail

	Abbey National	Barclays	HVB Group	Rabobank	The Co-operative Bank	Vancouver City	Westpac
<b>General</b>							
Corporate/CSR governance*	✓			✓		✓	✓
Customer satisfaction		✓			✓		✓
Employee satisfaction/employee benefits		✓	✓	✓	✓	✓	✓
Performance against benchmark indices	✓	✓	✓	✓	✓		
Stakeholder dialogue		✓	✓	✓	✓	✓	✓
<b>Direct impacts</b>							
CO <sub>2</sub> emissions	✓	✓	✓	✓	✓	✓	✓
Energy consumption	✓	✓	✓	✓	✓	✓	✓
Paper		✓	✓	✓	✓	✓	✓
Travel		✓	✓	✓	✓	✓	✓
Waste/percentage recycled	✓	✓	✓	✓	✓	✓	
Water consumption	✓	✓			✓		
<b>Indirect impacts</b>							
Ethical/SRI/sustainable products and loans	✓	✓	✓	✓	✓	✓	✓
Ethical investment guidelines/screening processes	✓		✓		✓	✓	✓
Ethical principles/statement of ethics	✓		✓		✓	✓	
Financial inclusion	✓	✓			✓		
Responsible lending		✓		✓			✓
Risk management	✓	✓	✓				
Supply chain management		✓			✓	✓	✓
<b>High-profile issues**</b>							
Animal experiments/welfare	✓	✓			✓		
Anti-money laundering/fraud		✓	✓		✓		✓
Bribery and corruption		✓					
Defence exports	✓	✓			✓		
Genetic modification				✓	✓		
Human rights	✓	✓		✓	✓		
Overseas development (Africa)		✓					
Third world debt		✓					✓

\* Not environmental governance \*\* As part of responsible lending, investment guidelines or general financial services.

Source: [www.corporateregister.com](http://www.corporateregister.com)

Report key: Abbey National – *Corporate Citizenship Report 2001* (27 pages); Barclays – *Including You: Social and Environmental Report 2001* (33 pages); HVB Group – *From Environmental Report to Sustainability Report. Sustainability is Moving* (98 pages); Rabobank – *Annual Responsibility and Sustainability Report 2001*, Rabobank Group, *People Planet Profit* (89 pages); The Co-operative Bank – *Our Impact. Partnership Report 2001* (93 pages); Vancouver City Credit Savings Union – *2000/01 Accountability Report* (46 pages); Westpac – *Our First Social Impact Report. A Fresh Perspective* (2002) (42 pages)

direct impacts as energy consumption and waste management. The bulk of the report looks at lending and investments, a theme followed to varying degrees by each of these leaders (see table).

Few banks have historically reported on how they address controversial issues. Increasingly, however, stakeholders expect banks to evaluate lending and investment decisions against social, environmental and ethical criteria. Of all the major banks, the UK's Barclays appears most open in this field, disclosing a wealth of data on issues such as financial support in under-invested areas, and outlining public interest issues.

Several reports are very bulky – The Co-operative Bank can be singled out for consistently producing weighty reports chock-full of views, data and analysis. Helping readers find their way around lengthy reports is an important communications issue: an index, in addition to a contents page, should be the least that can be expected.

Half of this year's banking reports have some form of independent verification, which compares well with the average 38% of current verified reports for all sectors combined<sup>7</sup>. However, the quality of statement

varies widely. Some statements are very limited, focusing more on giving the impression of authority while saying very little. Such statements, often prepared by large accounting firms, do little to provide assurance or add to the credibility of a report.

Of the reports surveyed, two better approaches stand out. Westpac has statements by three separate organisations, looking at environmental, social and financial content respectively. This is a 'belt-and-braces' approach – each organisation can be expected to be expert in its own field, adding substantial value to the report for the reader.

The Co-operative Bank has, as in previous years, included a series of contributions by external commentators, each looking at different aspects of performance and reporting. The statements, although occasionally long-winded, serve to demonstrate the openness and transparency of the bank's approach.

**W**e can expect the general reporting shift to CSR and social issues to be especially marked in the banking sector. There will be a shift away from operational and housekeeping performance reporting towards explaining how banks man-

age the huge funds at their disposal – their lending and investments.

In line with this shift of reporting emphasis, third-party statements will also need to consider much wider issues. The expertise needed adequately to assess, audit or otherwise verify the full range of issues in the emerging type of bank report may no longer reside in an individual company. Multi-disciplinary teams will need to be established, unless several organisations undertake separate tasks. For many stakeholders, the credibility and transparency of these reports would be enhanced by involving organisations from civil society in their assessment, not just those with whom the bank already has a professional auditing relationship.

Finally, reports will need to be more concise, leaving detail for the internet. Banks covering the most ground in the least pages deserve our approval.

Paul Scott is director, and Steve John senior consultant, at Next Step Consulting, a London-based consultancy focusing on corporate policy, strategy and communications. Next Step Consulting's free on-line directory of 3,500 environmental and social reports, with 1,000 PDFs, can be accessed at [www.corporateregister.com](http://www.corporateregister.com). All reports mentioned in this article are included in the directory. E-mail: [post@nextstep.co.uk](mailto:post@nextstep.co.uk)

<sup>7</sup> Based on data from [www.corporateregister.com](http://www.corporateregister.com)