



SPI-Finance 2002

Social Performance Indicators for the Financial Industry

Report of an international
project undertaken by
financial institutions

available at:

www.spifinance.com

SPI-Finance 2002

Social Performance Indicators for the Financial Industry

Report of an international project undertaken by the following financial institutions:

Co-operative Insurance:



Credit Suisse Group:



Deutsche Bank AG:



Development Bank of Southern Africa:



Rabobank:



Swiss Re:



The Co-operative Bank:



UBS AG:



Westpac Banking Corporation:



Zürcher Kantonalbank:



Authors of the final report and project managers:

Oliver Schmid-Schönbein,
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E2 Management Consulting Inc.



Foreword

A view on Social Performance Indicators for the Financial Services Sector

Dear reader

A corporate sustainability strategy asks for improved performance in all its dimensions – environmental, social and economic. Appropriately defined performance indicators are an important element for measuring and reporting sustainability performance. Such indicators enable organisations to measure their progress against targets and to report such progress to stakeholders more transparently.

Contributing to the measurement and reporting of sustainability performance has long been an important issue for the WBCSD and for UNEP. This also leads to our common support of the Global Reporting Initiative (GRI). We welcome the fact that the GRI has adopted the results of this project as one of the first industry specific pilot sector supplements to its generic reporting Guidelines. While no reporting system is or can be perfect, the results of this initiative are an important step. UNEP and WBCSD look forward to working with GRI to ensure continual improvement in the understanding and the implementation of the sector supplements that it adopts.

This report contains indicators on social performance for the financial industry. The report is based on the experience of companies that have been pursuing a sustainability strategy for some time. The project not only developed indicators, but also tested them and provides company examples within this report. The indicators are also based on the experiences and needs of numerous stakeholders of financial institutions, and their views on the results and further expectations can be found in the report.

We encourage other financial institutions to use the guidance contained in this report when developing their own sustainability measurement and reporting. More experience and critical views will allow this framework to develop over time.

Jacqueline Aloisi de Lardere
United Nations Environment Programme (UNEP)

Björn Stigson
World Business Council for Sustainable Development (WBCSD)

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Within the Global Reporting Initiative (GRI) our appreciation goes to Allen White, Sean Gilbert and especially to Bridget Snell.

A special thank you goes to all the stakeholder representatives who invested their time to help this project include outside expectations on the social performance of financial institutions. Representing the people and the organisations listed in the annex our thanks goes in particular to Dirk van Braeckel, Andreas Missbach and Philippe Spicher.

Zurich, December 2002

Oliver Schmid-Schoenbein, Arthur Braunschweig and Gaby Oetterli
E2 Managment Consulting Inc.

Management Summary

The SPI-Finance Project was launched by 10 financial institutions, the Global Reporting Initiative (GRI) and E2 Management Consulting Inc. in early 2001 with the aim of developing sector-specific social performance indicators for the financial industry. The project is also the follow-up project to the “EPI-Finance 2000” project, which defined a set of environmental performance indicators for financial institutions.

SPI-Finance is a voluntary initiative which was undertaken and funded by the following financial institutions:

- ◆ Co-operative Insurance (UK)
- ◆ Credit Suisse Group (CH)
- ◆ Deutsche Bank AG (DE)
- ◆ Development Bank of Southern Africa (ZA)
- ◆ Rabobank Group (NL)
- ◆ Swiss Re (CH)
- ◆ The Co-operative Bank (UK)
- ◆ UBS AG (CH)
- ◆ Westpac Banking Corporation (AU)
- ◆ Zürcher Kantonalbank (CH)

The indicators specific to insurance companies were developed in an outreach group where the following companies joined, together with the insurers in the core group:

- ◆ Interpolis (NL)
- ◆ Rheinland Versicherungen (DE)
- ◆ Swiss Life (CH)
- ◆ XL Winterthur International (CH)

E2 Management Consulting Inc. was responsible for the project management, for providing expert advice and for producing the final report.

Scope of this Report

This final report contains information on:

- ◆ the **background** of social performance reporting
- ◆ information on the **aim** and the **interpretation** of each indicator proposed
- ◆ **company examples** to each indicator proposed
- ◆ **feedback** from the **stakeholders** involved on the process and the results in each section
- ◆ additional **guidance** on how to handle the core social indicators that are proposed by the GRI Guidelines 2002.

Project Goals

The SPI-Finance 2002 project developed social performance indicators for the financial service industry, to be used for reporting on the social aspects of sustainability and Corporate Social Responsibility (CSR).

The project is linked to the Global Reporting Initiative – see www.globalreporting.org. Besides this report, the project produced a GRI sector-specific supplement on social performance for the financial services sector, to be used with the GRI 2002 Guidelines indicators.

The indicators developed in SPI-Finance strive to:

- ◆ cover the social performance areas of products, internal, suppliers and society in general,
- ◆ contain verifiable information,
- ◆ be sector-specific and limited in number,
- ◆ provide information on the continuous improvement process,
- ◆ allow for efficient and credible external communication.

In order to enhance the quality and acceptance of the results, SPI-Finance invited some 50 stakeholders to participate and provide input into the project, including labour organisations, human rights organisations, church groups, as well as sustainability analysts and business associations. The annex lists the stakeholders that provided input into the project.

Overview of SPI-Finance 2002 Indicators

This report contains the following social performance indicators for the financial services sector, covering eight areas:

	Management System	Internal Performance	Suppliers	Society
Management Performance Policies & Activities	◆ CSR Policy (CSR 1) ◆ CSR Organisation (CSR 2) ◆ CSR Audits (CSR 3) ◆ Mgmt. of Sensitive Issues (CSR 4) ◆ Stakeholder Dialogue (CSR 6)	◆ Internal CSR Policy (INT 1)	◆ Screening of Major Suppliers (SUP1)	
Operational Performance Results	◆ Non-Compliance (CSR 5)	◆ Staff Turnover & Job Creation (INT 2) ◆ Employee Satisfaction (INT 3) ◆ Senior Management Remuneration (INT 4) ◆ Bonuses Fostering Sustainable Success (INT 5*) ◆ Female-Male Salary Ratio (INT 6*) ◆ Employee Profile (INT 7)	◆ Supplier Satisfaction (SUP 2)	◆ Charitable Contributions (SOC 1) ◆ Economic Value Added (SOC 2)

	Retail Banking	Investment Banking	Asset Management	Insurance
Management Performance Policies & Activities	◆ Retail Banking Policy (socially relevant elements) (RB 1)	◆ Investment Policy (socially relevant elements) (IB 1)	◆ Asset Management Policy (socially relevant elements) (AM 1)	◆ Underwriting Policy (socially relevant elements) (INS 1)
Operational Performance Results	◆ Lending Profile (RB 2) ◆ Lending with High Social Benefit (RB 3)	◆ Customer Profile: Global Transaction Structure (IB 2) ◆ Transactions with High Social Benefit (IB 3)	◆ Assets under Management with High Social Benefit (AM 2) ◆ SRI Oriented Shareholder Activity (AM 3)	◆ Customer Profile (INS 2) ◆ Customer Complaints (INS 3) ◆ Insurances with High Social Benefit (INS 4)

* additional indicator = the indicators INT 5 and INT 6 are important for measuring performance, but do not qualify as Key Performance Indicators (KPIs) due to local, regional or legal context (see section 3.1)



Project Approach and Limits

The project was designed by the financial institutions in close co-operation with the GRI. In a broad consultative process, stakeholders were invited to comment on the content and the results. The project and the GRI made great efforts to ensure that a wide range of stakeholders were involved and that no substantive issues were excluded from discussion. The indicators presented here are the result of a group process among the participating financial institutions and take account of stakeholders' comments. This does not mean that each participating institution or stakeholder endorses each and every indicator. The project did not take a "lowest-common denominator" approach. Rather, the project has attempted to transparently address the primary social components of sustainability.

Many of the indicators proposed could prove to be challenging even to leaders in the field of reporting on social performance. In this report, company examples have been provided for each indicator. However, it cannot be expected that all financial institutions utilising the framework of SPI-Finance will report on all indicators at this point or, due to legal reasons in their respective markets, are able to do so in the future.

Based on experience gained through the application of this indicator framework, it will be necessary to review and possibly revise this framework in the future.

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1. Introduction

1.1 Concepts of Corporate Social Responsibility

The concept of corporate social responsibility has its roots in the relationship between the employees and the employer as well as in the discussions on the responsibilities of companies in society.

Since the mid-nineties two major concepts have entered the discussion:

- ◆ Sustainability or Sustainable Development, which is defined as the integrated and interactive optimisation of the economic, ecological and social performance;
- ◆ Corporate Social Responsibility (CSR), which has been defined by the WBCSD as “the commitment of business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life”.

Both concepts have a broad overlap. Sustainability may be seen as a concept where the activities of a company are challenged by external expectations. In CSR, it is more the task of the company to define its social responsibilities. Additionally, under the sustainability concept the environment is a dimension of its own to integrate into corporate strategy. This gives it a higher importance than under CSR where the environmental responsibility is one field of activity among several others such as staff, community, shareholders and other stakeholders.

For a user of the SPI-Finance 2002 indicators it is not significant which of these concepts is preferred as a starting point. Indicators to measure the social performance of a company are needed in both cases.

1.2 Why Social Performance Indicators?

Whilst performance indicators for the economic and environmental dimensions are broadly accepted and applied, corporate performance in the social field is to a large extent not yet measured and reported on in a standardised way.

The following reasons speak for standardised social performance reporting:

- ◆ The concept of **sustainability is gaining acceptance**. Increasingly the business community agrees on the necessity to integrate all three dimensions of performance into corporate strategy and management systems.
- ◆ The concept of sustainability is **gaining the interest of investors**. Today, more than 200 investment funds follow sustainability investment strategies. This segment is extremely dynamic and growing fast. The stock selection is increasingly being based on the best-of-class concept in all sectors. As a result, the best sustainability performers of the financial industry are also included in these portfolios. Financial institutions therefore need to be able to provide the necessary sustainability information. In their position as shareholder, SRI investors are also increasingly engaging companies to improve their sustainability performance. This shareholder advocacy does not prohibit investment in any specific firm, it aims at changing corporate behaviour.
- ◆ In a number of countries, including Australia, France, Germany and the UK, new **legislation** has emerged requiring occupational pension fund managers to disclose their policy on socially responsible investment.
- ◆ Internally, a sustainability strategy that includes social performance management enhances the **image of a socially responsible employer** and raises the motivation of staff and the attractiveness to highly qualified, but scarce, employees.

- ◆ Externally, a sustainability strategy supports the **legitimacy** of the institution towards external stakeholders.
- ◆ The management of social performances (see section 1.3.2) requires indicators to set corporate and individual goals and measure performance. **What gets measured gets done.**

In this context the **financial industry faces the double role** of:

- a) requiring sustainability information in order to develop and promote such investment products and
- b) itself being rated by rating agencies and investors on social performance.

For this reason 10 financial institutions, all sector leaders in their respective countries concerning the implementation of sustainability strategies, joined to develop this first sector-specific proposal of social performance indicators.

1.3 Social Performance and CSR / Sustainability Management

1.3.1 Reporting of Social Issues

Traditionally issues concerning the relation between companies and staff and / or society as a whole have been integrated in a small section of the annual reporting. Since the mid 90's that situation has changed dramatically. Today companies report on their social performance using various instruments:

- ◆ The instrument of a **social report** has regained importance, e.g. in France.
- ◆ In Anglo-Saxon countries, companies increasingly publish **CSR** or **community involvement reports**.
- ◆ A state-of-the-art **sustainability report** includes a section on social relations and performance.
- ◆ Some companies are putting an end to the parallelity of annual, financial and sustainability / environmental reports. They prefer to publish **integrated reports** covering all dimensions of corporate performance.

The reporting of social issues is also fostered by various initiatives:

- ◆ First of all, **the Global Reporting Initiative (GRI)**: a long-term, multi-stakeholder, international process whose mission is to develop and disseminate globally applicable Sustainability Reporting Guidelines ("Guidelines") for voluntary use by organisations reporting on the economic, environmental, and social dimensions of their activities, products and services. The aim of the Guidelines is to assist reporting organisations and their stakeholders to better describe and articulate the overall contributions of the reporting organisations towards sustainable development.

The SPI-Finance 2002 project is linked with the GRI (see section 2.3) and has delivered a sector supplement on social performance indicators for the financial industry.

- ◆ The SustainAbility / United Nations Environment Programme (UNEP) programme **Engaging Stakeholders** was launched in the early '90s to enhance corporate sustainability reporting and today is the world's leading report benchmarking programme, with a major impact on what and how companies report.

Other initiatives which enhance the transparency and the reporting on social performance are:

- ◆ The European and National Reporting Awards for environmental and sustainability reports of the Association of Chartered Certified Accountants (ACCA) and others
- ◆ The Global Compact Initiative of the United Nations
- ◆ The Global Corporate Citizenship Initiative of the World Economic Forum (WEF)
- ◆ The World Business Council for Sustainable Development (WBCSD) Guidelines on Corporate Social Responsibility
- ◆ The increasing legislation on mandatory corporate reporting on sustainability issues, e.g. in countries such as Denmark, France and Japan.

1.3.2 Management of Social Issues

External reporting on social performance is one element of the management of social issues. Internal and external stakeholders want to see this performance and will expect progress. To achieve this, social aspects can be integrated into strategy, planning and daily management procedures.

Various initiatives have been launched to include the social dimension in management or to develop integrated management systems where the social dimension is systematically included:

- ◆ The **SA 8000** standard, launched by Social Accountability International (SAI), helps companies to identify and manage key social issues within their companies as well as with their key suppliers.
- ◆ The Sustainability Integrated Guidelines for Management Project (**SIGMA Project**) aims to create a set of tools and standards which will enable organisations to integrate the environmental, social, ethical and economic dimensions of sustainability.
- ◆ Accountability 1000 (**AA1000**) is the work of ISEA – the Institute for Social and Ethical Accountability. ISEA (also known as AccountAbility) is an international membership organisation, based in the UK. It exists to encourage ethical behaviour in business and non-profit organisations.

AA1000 is promoted as a standard for the measuring and reporting of ethical behaviour in business. It provides a framework that organisations can use to understand and improve their ethical performance, and a means for others to judge the validity of claims to be ethical.

When looking at these initiatives to develop integrated management systems it has to be noted that the management of social issues within financial institutions does not start from zero. Particularly in labour relations there has been a long tradition of CSR organisation, measures and performance measurement, even though often used only internally. Many of the issues identified by the SPI indicators are already managed today in various organisational units within a financial institution.

The question is in how far these issues are managed systematically and whether there is a process for implementing continuous improvement. Many financial institutions have environmental management systems in place and will need to integrate social aspects in order to build up a sustainability or CSR management system.

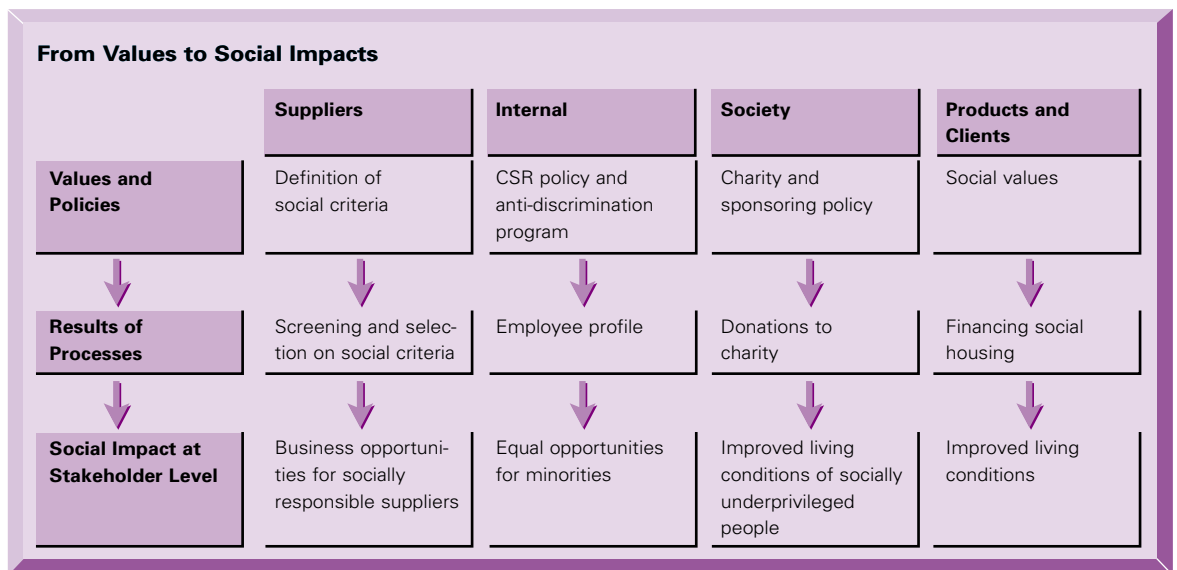
1.3.3 Defining Social Issues in Financial Institutions

Discussions on the influence or the power of financial institutions have a long history. Particularly today, internationally active financial institutions are criticised by NGOs and human rights organisations on their involvement in the financing of large infrastructure projects in countries with low human rights standards.

When trying to identify the social aspects of a financial institutions it is important to differentiate between:

- a) the values and policies of the institution
- b) the results of company processes
- c) the social impacts at stakeholder level

The following chart clarifies these different dimensions and provides examples:



The project group acknowledges that, where possible, the direct social impact should be targeted when measuring social performance. In cases where there is a direct relationship between the financial institution and the stakeholder, such as in staff relationships, the impact can more easily be measured than in those cases where there is an indirect relationship or impact with the social group affected.

However, it should be noted that financial institutions find it difficult to measure their own direct or indirect contribution to a given social impact. Often the financial means provided are only one aspect that facilitates a socially relevant project. They also point to their role as financial intermediaries where the funds provided are often legally owned by third party investors.

2. The SPI-Finance Project

2.1 Background

The Global Reporting Initiative (GRI) is an international project to standardise and promote sustainability reporting. The GRI's Sustainability Reporting Guidelines 2000 represented the first global framework for comprehensive sustainability reporting, encompassing the "triple bottom line" of economic, environmental and social issues. The GRI guidelines 2000 have already had an important impact on the practice of sustainability reporting.

In the GRI Guidelines 2000 a first set of social performance indicators, including 38 indicators on various issues, were proposed. From the perspective of the financial industry, the proposed indicators on social performance were not all suitable for the specific character of financial services.

At the same time financial institutions world-wide began reporting on social as well as environmental issues. This emphasised that reporting in the industry was moving towards more all-encompassing sustainability reporting, and that there soon would be a need for industry-specific, standardised indicators.

The SPI-Finance Project was launched in early 2001 as a follow-up project to the "EPI-Finance 2000" project, which defined a set of environmental performance indicators for financial institutions (www.epifinance.com).

Within the EPI-Finance project it became obvious to the participants that the social dimension of a Sustainability or Corporate Social Responsibility strategy also requires a set of performance indicators to identify, measure, improve and communicate the social performance of a financial institution. E2 Management Consulting Inc. launched this follow-up project.

2.2 Project Goals

The SPI-Finance 2002 project was based on the following goals:

- ◆ To develop social performance indicators for the financial service industry, to be used for reporting on CSR issues
- ◆ To provide a sector-specific supplement to the "GRI Sustainability Guidelines 2002"
- ◆ To develop indicators which
 - cover the social performance areas of products, internal, suppliers and society in general
 - contain verifiable information
 - are sector-specific and limited in number
 - provide information on the continuous improvement process
 - allow for efficient and credible external communication
- ◆ To involve stakeholders to ensure balance, quality and legitimacy
- ◆ To enhance the image of first users as innovative and socially responsible

2.3 Co-operation with the Global Reporting Initiative (GRI)

The GRI itself recognises the importance of capturing the unique set of sustainability issues faced by different industry sectors and the limits of a one-size-fits-all approach to producing sustainability indicators. To address this need the GRI has begun to work

together with industry and its stakeholders to develop a set of sector supplements for use in combination with the GRI Guidelines. Eventually, the GRI framework will include a range of sector-specific supplements developed through multi-stakeholder processes.

In this context, the GRI and the SPI-Finance project linked activities. SPI-Finance produced one of the first two supplements to be produced by any industry sector for the GRI framework. The "Financial Services Industry Sector Supplement: Social Performance" (see www.globalreporting.org) contains guidance for financial institutions when preparing sustainability reports using the GRI framework found in the *2002 Sustainability Reporting*.

The supplement presents a proposal of key social performance indicators, as developed through a multi-stakeholder process convened by SPI-Finance 2002 and the GRI. The supplement adds to, but does not replace the 2002 Guidelines section on performance indicators. For all other aspects regarding reporting using the GRI framework, please refer to the *2002 Guidelines*.

In the 2002 edition of the GRI Guidelines a new set of performance indicators is proposed. The SPI-Finance indicators were produced in parallel to the work for the GRI 2002 Guidelines. This explains the certain overlap between the SPI-Finance and the GRI indicators. Section 4 of this report gives advice on how to handle the parallelity from the perspective of a financial institution.

2.4 GRI Sector Supplement and SPI-Finance Final Report

As indicated above, the SPI-Finance 2002 Project is linked with the GRI. The project's results are published in two separate documents:

- ◆ The Financial Services Industry Sector Supplement: Social Performance, a 22 page document published by the GRI.
- ◆ This comprehensive SPI-Finance 2002 Final Report published on the project website www.spifinance.com as a PDF document.

Both reports have in common the main content, the definitions of the SPI indicators as well as a description of the process that led to the development of the indicators.

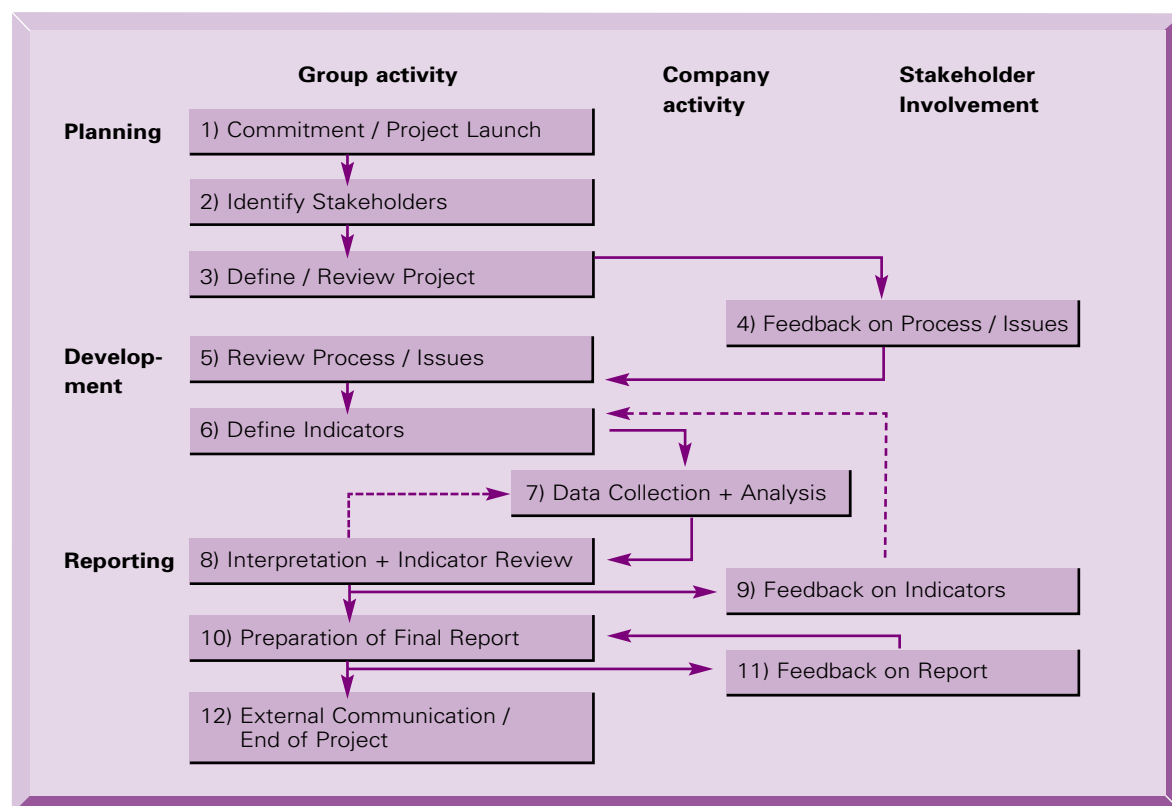
In addition to the GRI Sector Supplement document, this final report contains information on:

- ◆ the **background** of social performance reporting
- ◆ information on the **aim** and the **interpretation** of each indicator proposed
- ◆ **company examples** to each indicator proposed
- ◆ **feedback** from the **stakeholders** involved on the process and the results in each section
- ◆ additional **guidance** on how to handle the core social indicators that are proposed by the GRI Guidelines 2002.

Both documents have been produced by the same process, however they are independent of each other. While the sector supplement is a GRI document and has been endorsed by the GRI board of directors, this is not the case for this final report. It is not a GRI document and all the statements and interpretations herein are the responsibility of the authors and the SPI-Finance project group.

2.5 Project Design

The project was designed in line with recent developments in the field of social accountability, with the project management oriented towards the AA1000 Process Model. The project consisted of the following twelve phases:



2.6 Stakeholder Involvement

In order to enhance the quality and acceptance of the results, SPI-Finance invited some 50 stakeholders to participate and provide input into the project, including labour organisations, human rights organisations, church groups, as well as sustainability analysts and business associations. See the annex for a list of stakeholders that provided input into the project.

In the first phase of involvement, stakeholders were asked to outline their expectations concerning the social performance of financial institutions and suggest possible indicators. Initial feedback was focused on key areas of social performance identified by the participating financial institutions.

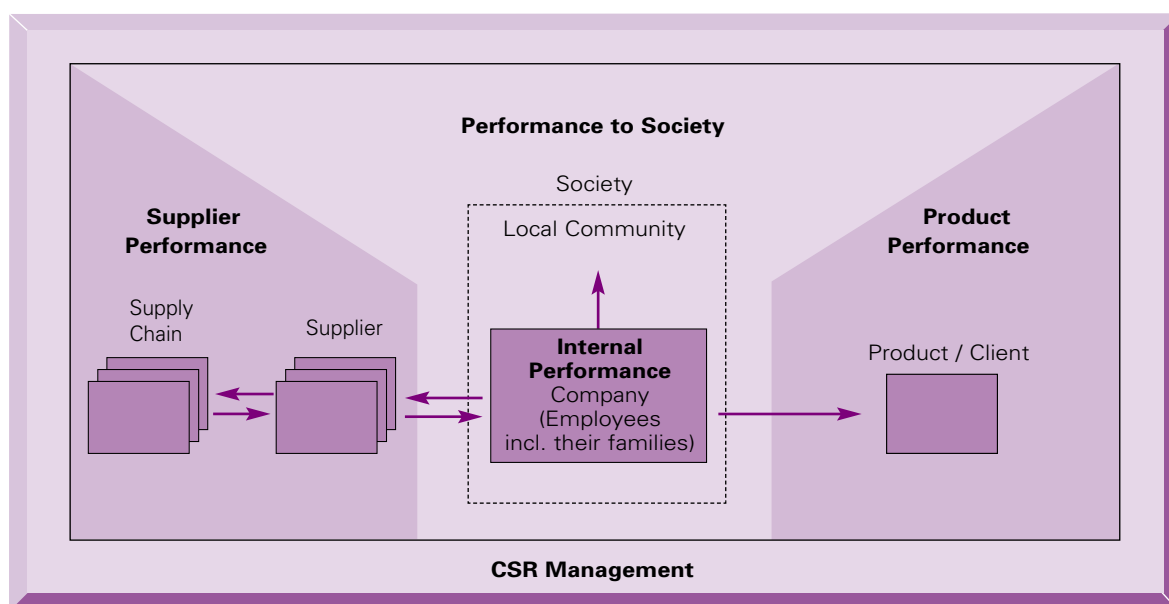
In a second phase of involvement, stakeholders were asked to review the indicators proposed by the financial institutions. These indicators and their definitions were based on the experience of the financial institutions' relevant data collection within their own institutions and on the feedback provided in the first phase. Stakeholder feedback led to significant revision of the proposed indicators.

In a third phase, stakeholders were asked to comment on the draft final report. A selection of the comments received are included in this report at the end of chapters 2 and 3.2 to 3.9. An equal representation of stakeholder and company representatives in the committee responsible for editing this final report ensured a fair inclusion of comments.

2.7 Scope of SPI-Finance

The project developed key performance indicators for the financial industry covering the following areas of social performance:

- ◆ **Internal** social performance, including relationships with staff and their families.
- ◆ **Society** in general, such as performance towards communities and countries in which the business operates.
- ◆ Impacts of **products and services** on clients, as well as on people who are indirectly influenced by financial services.
- ◆ **Suppliers'** social performance (towards staff and society), as well as performance of the financial institution towards those suppliers.



Additionally, management performance indicators serve to describe the quality of engagement on Corporate Social Responsibility (**CSR Management**).

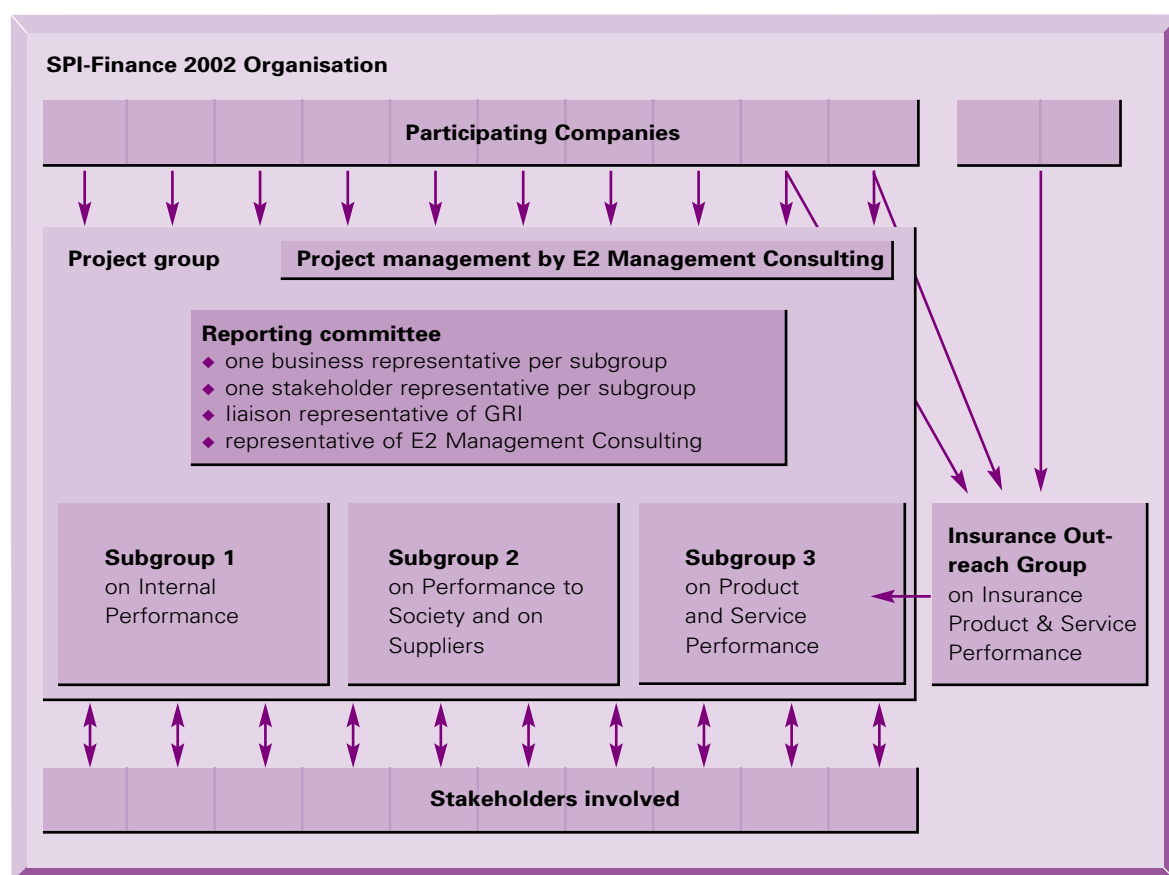
2.8 Organisation and Development of the Project

The project took place between March 2001 and December 2002.

The project group organised itself in an informal manner. Institutions were invited globally to participate based on the following criteria:

- ◆ The financial institution was interested in the development of standardised social performance indicators.
- ◆ It was prepared to gather data for the indicators within its own institutions, where possible, and present these results.

The following organisational structure for the project was agreed on among the GRI and the participating companies:



Each of the participating financial institutions was involved in the drafting of the indicators. The project proceedings were determined during an initial meeting with representatives from all financial institutions. The indicator development work took place during:

- 3 subgroup meetings. The subgroups were divided into the following areas of social performance:
 - ◆ internal social performance
 - ◆ social performance towards society; suppliers
 - ◆ social performance of products / services.
- 2 stakeholder meetings (with financial institutions present). See chapter 2.6 for details of stakeholder involvement.
- 2 Insurance Outreach Group meetings
- telephone conferences among the financial institution representatives

A GRI-SPI Reporting Committee (GSRC) was set up to facilitate communication between the subgroups and the partners such as the GRI and stakeholders. The GSRC was responsible for editing the final report and thereby ensured that the results of stakeholder involvement, as well as dissenting opinions, were fairly included.

2.9 Project Participants

SPI-Finance is a purely voluntary initiative which was undertaken and funded by the following financial institutions:

Full Member Financial Institutions	
Co-operative Insurance (UK)	Swiss Re (CH)
Credit Suisse Group (CH)	The Co-operative Bank (UK)
Deutsche Bank AG (DE)	UBS AG (CH)
Development Bank of Southern Africa (ZA)	Westpac Banking Corporation (AU)
Rabobank Group (NL)	Zürcher Kantonalbank (CH)
Additional Insurance Companies in the Insurance Outreach Group	
Interpolis (NL)	Swiss Life (CH)
Rheinland Versicherungen (DE)	XL Winterthur International (CH)

E2 Management Consulting Inc. (CH) was responsible for the project management, for providing expert advice and for producing the final report.

2.10 Overview of the Social Performance Indicators (SPIs)

The following two tables show the proposed indicators for all social performance areas:

	Management System	Internal Performance	Suppliers	Society
Management Performance Policies & Activities	◆ CSR Policy (CSR 1) ◆ CSR Organisation (CSR 2) ◆ CSR Audits (CSR 3) ◆ Mgmt of Sensitive Issues (CSR 4) ◆ Stakeholder Dialogue (CSR 6)	◆ Internal CSR Policy (INT 1)	◆ Screening of Major Suppliers (SUP1)	
Operational Performance Results	◆ Non-Compliance (CSR 5)	◆ Staff Turnover & Job Creation (INT 2) ◆ Employee Satisfaction (INT 3) ◆ Senior Management Remuneration (INT 4) ◆ Bonuses Fostering Sustainable Success (INT 5*) ◆ Female-Male Salary Ratio (INT 6*) ◆ Employee Profile (INT 7)	◆ Supplier Satisfaction (SUP 2)	◆ Charitable Contributions (SOC 1) ◆ Economic Value Added (SOC 2)

	Retail Banking	Investment Banking	Asset Management	Insurance
Management Performance Policies & Activities	♦ Retail Banking Policy (socially relevant elements) (RB 1)	♦ Investment Policy (socially relevant elements) (IB 1)	♦ Asset Management Policy (socially relevant elements) (AM 1)	♦ Underwriting Policy (socially relevant elements) (INS 1)
Operational Performance Results	♦ Lending Profile (RB 2) ♦ Lending with High Social Benefit (RB 3)	♦ Customer Profile: Global Transaction Structure (IB 2) ♦ Transactions with High Social Benefit (IB 3)	♦ Assets under Management with High Social Benefit (AM 2) ♦ SRI Oriented Shareholder Activity (AM 3)	♦ Customer Profile (INS 2) ♦ Customer Complaints (INS 3) ♦ Insurances with High Social Benefit (INS 4)

* additional indicator = the indicators INT 5 and INT 6 are important for measuring performance, but do not qualify as Key Performance Indicators (KPIs) due to local, regional or legal context (see section 3.1)

2.11 Project Approach and Limits

This report contains proposed social performance indicators for the financial services industry. Based on experience gained through the application of this indicator framework, it will be necessary to review and possibly revise this framework in the future.

The project was designed by the financial institutions in close co-operation with the GRI. In a broad consultative process, stakeholders were invited to comment on the content and the results. The project and the GRI made great efforts to ensure that a wide range of stakeholders were involved and that no substantive issues were excluded from discussion. The indicators presented here are the result of a group process among the participating financial institutions and take account of stakeholders' comments. This does not mean that each participating institution or stakeholder endorses each and every indicator. The project group also acknowledges that both the project design and the selected indicators do not fully cover the expectations of each and every stakeholder. In subsequent revisions of this indicator set, the design of the stakeholder engagement process will be informed by the lessons learned from the development of these indicators.

The project did not take a "lowest-common denominator" approach. Rather, the project has attempted to transparently address the primary social components of sustainability. Many of the indicators proposed could prove to be challenging even to leaders in the field of reporting on social performance. In this report, company examples have been provided for each indicator. However, it cannot be expected that all financial institutions utilising the framework of SPI-Finance will report on all indicators at this point or, due to legal reasons in their respective markets, are able to do so in the future.

2.12 Stakeholder Feedback to the SPI-Finance Project and General Comments

Tauni Brooker, Core Ratings (formerly with WBCSD):

“Document is very comprehensive and seems to have covered most of the major sustainability issues facing the financial sector.

In some cases there are no firm arguments why an indicator would always go up or down – some indicators are open to interpretation. As an illustration, if an indicator is good then it should always go up, for some of the indicators this is not always the case – ie, consistency in direction.”

Christoph Buholzer, ACTARES:

“ACTARES welcomes this effort – many positive aspects, some critical remarks, go ahead... Regarding this report, we appreciated the way it is presented with examples out of recent reports.”

Ivo Knoepfel, OnValues (formerly with Dow Jones Sustainability Group Index / SAM):

“Overview of indicators: the indicator “Internal CSR Policy” is not self-explaining. GRI terminology should be used (e.g. Labour practices).

The general indicators you propose overlap to a great extent with the general GRI Indicators.”

Andreas Missbach, Berne Declaration:

“Defining Social Issues in Financial Institutions (1.3.3): NGOs see the proposed reporting as a small step in the direction of our ultimate goal of a new financial ethics and practice, where investors and intermediaries alike would bear responsibility for projects financed. The wording in 1.3.3 is disappointing as it seems to indicate that the financial institutions have not understood our message yet. We don't accept that complex financing constructions lead to the evaporation of responsibility. Every member of a consortium bears its share, although a lead arranger or financial advisor has probably a higher responsibility.

Stakeholder Involvement (2.6): The SPI finance project was not what NGOs would call a «state of the art multi stakeholder process». As the phase of stakeholder definition was not transparent, there hasn't been a balanced selection of stakeholders, therefore there were no stakeholders from the global south, and most of the stakeholders came from the SRI-community, which has also business links to the financial institutions involved. There was no common discussion on the agenda, stakeholder involvement was reduced to commenting the projects agenda at several stages of the project. The ultimate decision on indicators and wording rested with the FIs.

SPI obviously falls behind GRI (see: 4.2 GRI – SPI comparison; there is no space provided to comment on chapter 4). GRI's SOC1 indicator asks for reporting on «policies to manage impacts on communities in areas affected by the reporting organisation's activities». NGOs definitively define financing or co-financing as an activity of financial institutions, therefore it is not enough to report only on stakeholder dialogue in general as SPI proposes.”

Christoph Weber-Berg, Evang.-ref. Landeskirche des Kantons Zürich:

“The limits or difficulties of stakeholder involvement in the SPI-Finance Project are not mentioned: Stakeholder identification and involvement.

The report looks fine, congratulations! It took some time but it was obviously worth waiting. The structure of the paper makes it understandable and easy to handle. I think it's very important now that the project lives on in some form or the other: One or two years from now companies and stakeholders should be invited to share their experiences. There should be a chance to improve the pattern of indicators and the indicators themselves. Talking about sustainability is talking about living processes.”

3. Social Performance Indicators for the Financial Industry

3.1 Types of Indicators

The indicator structure has been set up in alignment with the ISO 14031 guidance:

- ◆ Indicators measuring the management performance within the social management system (Management Performance Indicators, MPI) and
- ◆ Operational Performance Indicators (OPI) describing the actual social performance of the institution.

MPIs focus on the “drivers” whilst the OPIs concentrate on the “results”. For example, the results of the Retail Banking Policy (RB 1) can be found in the data of the RB 3 indicator “Lending with High Social Benefit”.

The SPI-Finance project group understands indicators to be either qualitative or quantitative. However, quantitative indicators will always need some qualitative comments for interpretation. Qualitative indicators describe either an underlying value or ongoing processes which cannot be described by a single quantitative indicator.

The majority of SPI indicators are Key Performance Indicators (KPIs) covering issues the SPI project group found to be key for the financial industry. There are two additional indicators (INT 5 and INT 6) which are important for measuring performance but they do not qualify as KPIs due to local, regional or legal context.

Data for the indicators should cover the entire institution. A reporting institution should state if other boundaries, such as data collection on a regional basis, have been applied.

Each indicator proposed is illustrated by one or more company examples. The examples were developed in parallel with the process of defining the indicators, as it was the project’s goal to test proposed indicators against the reality of collecting data within financial institutions. As a consequence, not all examples provided comply exactly with the final definition. Neither is it the intention that the indicator examples provided in this report set the standard of indicator data for future reporting.

Each indicator is presented as follows:

No.	Indicator title	Indicator type
Indicator definition and comments		

3.2 Corporate Social Responsibility (CSR) Management

CSR management describes the all-encompassing management and management system that a financial institution has installed to manage relevant social issues.

The following indicators are proposed by the project group:

- ◆ CSR 1: CSR Policy
- ◆ CSR 2: CSR Organisation
- ◆ CSR 3: CSR Audits
- ◆ CSR 4: Management of Sensitive Issues
- ◆ CSR 5: Non-Compliance
- ◆ CSR 6: Stakeholder Dialogue

While the first three indicators focus on elements of the management system, indicators 4 to 6 describe management of specific social issues.

There may be some overlap between the policy indicator in this section and the policy indicators covered in other sections.

This reflects the diversity of social management in companies today. Some institutions may have installed explicit CSR policies and procedures, others may have included social aspects in the respective business policies. It is recommended to address social issues in the respective business area section, if possible.

3.2.1 CSR 1: CSR Policy

What the indicator aims at

This indicator enables the understanding of the core social values of a financial institution. A CSR policy (or policies) document is the constitution of the social management approach where a company identifies its areas of social responsibility and the external standards it has adopted (e.g. ILO conventions). The CSR policy should be an internally valid standard and compliance should be ensured by internal procedures, such as engaging the compliance officer and / or carrying out internal or external audits.

Stakeholders consulted by SPI-Finance expressed the expectation to see the core values of the company and whether it has recognised its areas of social responsibility. They will be interested in which policies are in place with regards to external standards and whether companies go beyond these standards or are more advanced in comparison to other companies.

Definition and scope of indicator CSR 1

CSR 1	CSR Policy	Qualitative; Text
Describe social elements of the CSR policy, including corporate definition of CSR.		
CSR Policy is an expression of an organisation's core social values. It may consist of one or more documents, including CSR policies for separate business sectors (e.g., human resources, suppliers, lending policy, investment policy, etc.). The company should reference voluntary codes of conduct it has signed. The company may make reference to external standards, e.g. ILO conventions. Companies may consider not explicitly referring to each of these conventions if they are obvious in a given cultural and legal context.		

Company examples for indicator CSR 1

The Co-operative Bank's Ethical Policy

The Partnership Report 2001

This is the Ethical Policy of The Co-operative Bank and smile.co.uk. It is based on extensive consultation with our customers and reflects their ethical concerns about how their money should and should not be invested. It also informs our choice of partners and suppliers.

Human Rights

Through our investments, we seek to support the principles of the Universal Declaration of Human Rights. In line with this, we will not invest in:

- ◆ any government or business which fails to uphold basic human rights within its sphere of influence
- ◆ any business whose links to an oppressive regime are a continuing cause for concern.

The Arms Trade

We will not invest in any business involved in:

- ◆ the manufacture or transfer of armaments to oppressive regimes
- ◆ the manufacture of torture equipment or other equipment that is used in the violation of human rights.

Corporate Responsibility and Global Trade

We advocate support for the Fundamental International Labour Organisation Conventions. In line with these, we will seek to support businesses which take a responsible position with regard to:

- ◆ fair trade; labour rights in their own operations and through their supply chains in developing countries.

We will not support:

- ◆ irresponsible marketing practices in developing countries; tobacco product manufacture; currency speculation.

Social Enterprise

We will seek to support charities and the broad range of organisations involved in the Social Enterprise sector, including: co-operatives, credit unions, community finance initiatives.

Customer Consultation

- ◆ We will regularly reappraise customers' views on these and other issues and develop our Ethical Policy accordingly.
- ◆ From time to time, we will seek to represent our customers' views on the issues contained within our Ethical Policy and other ethical issues, through, for example, our campaigning activities.
- ◆ On occasion, we will make decisions on specific business, involving ethical issues not included in our Ethical Policy.

The Ethical Policy also covers the areas of: **Genetic Modification, Ecological Impact and Animal Welfare**

Swiss Re

Corporate Environmental Report 2001

Sustainability Mission Statement

Vision

Endeavouring to create long-term value, Swiss Re is committed to the principle of sustainability. Accordingly, we generate economic wealth which maintains ecological and social impacts at a level that enables future generations to meet their needs.

Business activity

Products and services

In co-operation with our clients and partners, we develop products and offer services and solutions for the management of environmental and societal risks.

Investments

Our investment criteria include sustainability considerations. Accordingly, we invest expertise and capital into selected ecologically sound and socially responsible companies and projects.

Infrastructure and logistics

We apply best practice standards of resource management to our properties and logistical operations, eg business travel. Thereby we continually reduce ecological impacts and provide a high quality working environment for our employees.

Our employees

We provide our employees with a working environment conducive to their personal and professional

development. They actively contribute to the implementation and further development of our sustainability commitment.

Stakeholder dialogue

Expertise and creativity, supported within the Swiss Re working environment, are regularly shared with our partners and the general public to encourage and facilitate sustainable development. Through active participation in research projects, risk assessments and international dialogue platforms, we seek solutions to social and ecological challenges.

Sustainability management

The sustainability principle is embedded in our corporate governance. Through its ongoing application to management processes, business decisions and communications, we take collective responsibility for sustainable development. We regularly report on our progress.

Interpretation

The two examples from The Co-operative Bank and Swiss Re show the possible range of issues covered in CSR policies. Based on broad consultation processes with its customers, The Co-operative Bank policy focuses on ethical issues such as arms trade or tobacco product manufacturing, while the policy of the globally active Swiss Re addresses all relevant stakeholders and fields of action and defines common denominators and shared values.

A CSR policy is always a mixture of describing the status quo and setting normative guidelines for the future. This includes that there may be room for improvement in the future, room for the objectives and next steps.

The CSR policy indicator should include the scope within the company. Financial institutions with global activities and / or a broad range of services may decide to have separate policies for a certain region or type of business. Social issues relevant to such specific markets or products should be covered in those documents (see indicators INT 1, RB 1, IB 1, AM 1 and INS 1). In this case the overall CSR policy should refer to such documents and vice-versa.

3.2.2 CSR 2: CSR Organisation

What the indicator aims at

This indicator creates transparency on key responsibilities and procedures in the company and describes the organisation of CSR management. The indicator helps to display the relative importance of CSR within the organisation.

The indicator should clarify the relations between the various organisational units (Board Level, Human Resources, Sustainability / CSR units, etc.) when implementing CSR.

Stakeholders consulted expressed the expectation to see whether CSR has been anchored at high levels and has been implemented as relevant in all levels of the organisation. They would also want to gain an impression on what resources are provided for managing CSR issues.

Definition and scope of indicator CSR 2

CSR 2

CSR Organisation

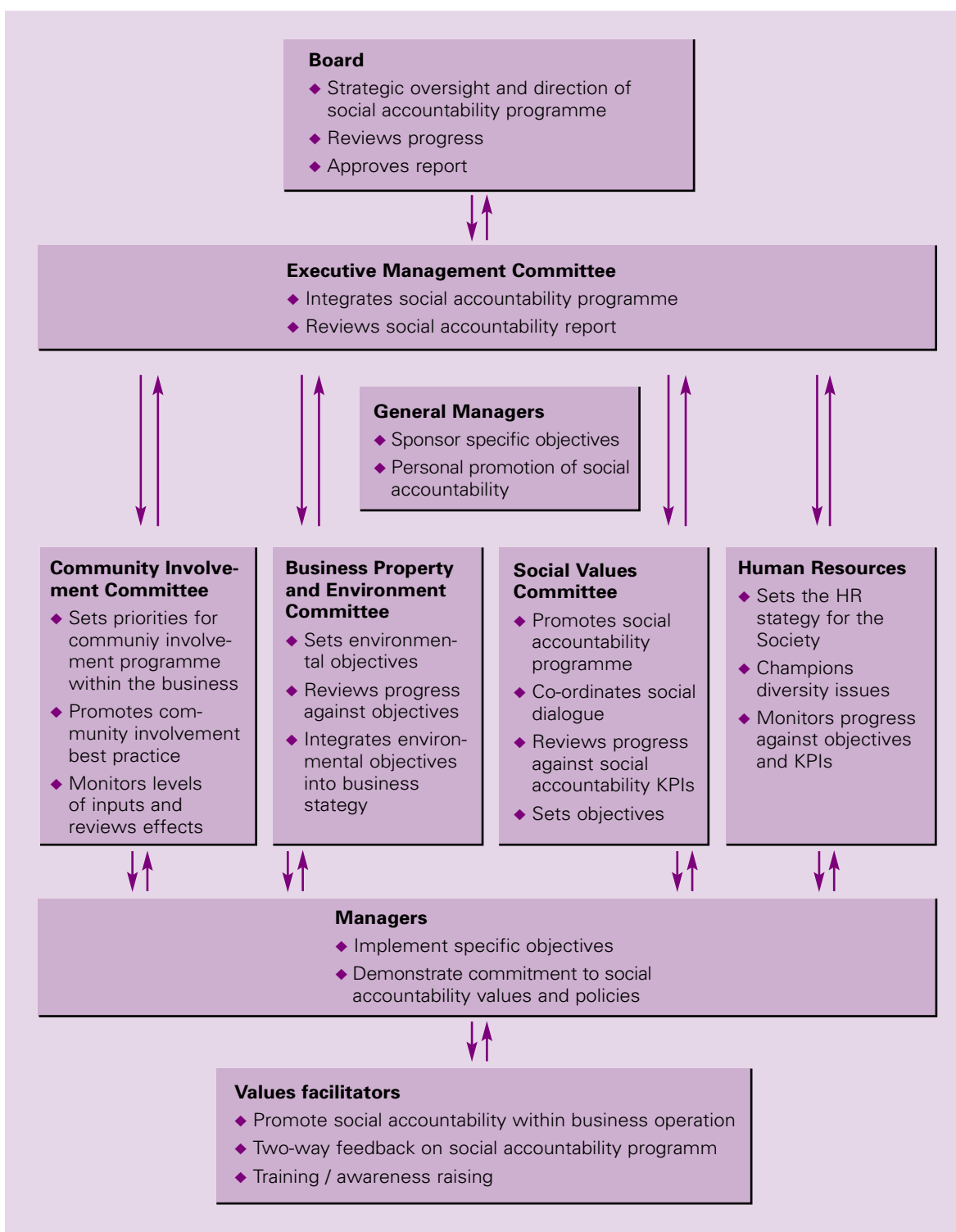
Qualitative; Text

Describe the structure and relevant CSR responsibilities, including explanation of the installed procedures.

Company examples for indicator CSR 2

Co-operative Insurance: Social Accountability Responsibilities

CIS Social Accountability Report 2001



UBS

UBS Handbook 2001 / 2002

"In 2001, we created a Corporate Responsibility Committee to guide this process at UBS, comprising members of the Board of Directors, the Group Executive Board, and the Group Managing Board. This committee is chaired by Marcel Ospel and has Hans de Gier, Vice Chairman of the Board, Peter Wuffli, President of the Group Executive Board, Donald Marron, Chairman UBS Americas, and Marcel Rohner, Chief Operating Officer UBS Private Banking as members. The Committee has the following duties:

- ◆ to determine the company's policy with respect to corporate responsibility and sustainable development;
- ◆ to support increased awareness of and monitor the company's adherence to international standards in these areas;
- ◆ to advise the Group Executive Board and other bodies on corporate responsibility;
- ◆ to advise the Board of Directors on reporting about the Group's efforts on corporate responsibility and sustainable development.

In close cooperation with the Business Groups, a specialized unit in the Corporate Center guides the Corporate Responsibility Committee in shaping the Group's overall strategy. The objective is to add value by combining existing, Group-wide activities into a consistent framework, systematically identifying and analyzing market opportunities and risks associated with society's changing expectations of corporate behavior, and ensuring that all relevant corporate responsibility issues are effectively covered."

Interpretation

When starting the process CSR responsibilities often lay with a small number of specialised units. With ongoing implementation, the responsibilities are often integrated into the core business processes, starting from top management downwards. They are often supported by specialised units (e.g. CSR / Sustainability units, HR units etc).

This indicator displays the status of a company's CSR organisation, as well as major changes over a period of time. The indicator should also reflect the structural variety of companies, as well as the inclusion of important business units and regions.

3.2.3 CSR 3: CSR Audits

What the indicator aims at

The indicator asks for quantitative information (hours and numbers) on internal and / or external audits. The company may wish to add qualitative information on the extent to which the goals and procedures defined by the CSR policies are systematically being tracked. The detailed results of the audits are important but will usually remain confidential, while a statement of the overall findings can be public.

Stakeholders consulted expressed the expectation for a clear description of the audit procedures. With internal audits, the number of audits and the time invested may be a sign of the quality of the controlling procedures. Whereas with external audits, the reputation and independence of the external auditors may be of more interest.

Definition and scope of indicator CSR 3

CSR 3

CSR Audits

Quantitative; # of audits, hours, text

Report on the number of audits and auditor hours.

Includes both internal and external (independent third party) audits on:

- ◆ compliance with CSR policy,
- ◆ management procedures,
- ◆ data commonly accompanying social reporting of indicators. Record internal and external audits separately.

This indicator and its comments should create transparency in how far policies – as described in all policy indicators of this standard – have or have not been translated into practice.

Company example for indicator CSR 3

Westpac

Social Impact Report , July 2002

Internal and external audits

Type	No.	Hours
All internal group audit	161	67,579
Internal OH&S audit	7	512
External OH&S audit	8	656
External EMS audit	1	88
External audit opinions	109	*

*Details of external auditor remuneration is set out in Note 31 page 98 of Westpac's 2001 Annual Financial Report.

Interpretation

For some stakeholders consulted and financial institutions only external 3rd party audits have a sufficiently high credibility and should be reported on. Other institutions attach similar importance to internal audits. For this reason the project group proposes to report on both internal and external audits, but separately.

Internal audits mainly help to develop the management system while external audits help to enhance the credibility of the institution.

In case of critical findings in the audits, companies should include a description of corrective measures to be taken followed by the follow-up audit results in later years. When choosing an external auditor one should assess their capacities, independence and credibility in the field. The AA 1000 Framework may assist companies when designing their external audit procedures and external reporting on results.

3.2.4 CSR 4: Management of Sensitive Issues

What the indicator aims at

This indicator is the result of intense discussions between the project group and the stakeholders consulted. The stakeholders were concerned that financial institutions would tend to report only on actions with an obvious positive societal benefit. The request was clearly expressed that also the 'negative' effects of financial transactions should be reported on.

The perception of a negative or positive effect depends on the value system and the cultural background of the person making the judgement. Not surprisingly, also within the project group there was no general consensus on the concept of negative effects except in cases where clear legal boundaries are breached, such as money laundering. In many cases there is a trade-off between desired effects and side-effects which may have negative consequences, such as resettlements in some large infrastructure projects.

The consensus reached was this indicator CSR 4, which describes the management of sensitive issues. Sensitive issues develop in areas where general public interests and individual business interests are diverging. Sensitive issues may vary over time and cover various business activities of a company.

Stakeholders consulted expressed the expectation that the company admits to sensitive issues when and how they are relevant to the business. They want to know how a company deals with these sensitive issues – the procedures it has in place and the results.

Definition and scope of indicator CSR 4

CSR 4	Management of Sensitive Issues	Qualitative; Text
Describe procedures for handling issues sensitive to stakeholders and responsiveness. Sensitive issues which are specific to a business area should be covered in the respective policy indicator(s). Issues which are not business area specific may currently include bribery and corruption, contributions to political parties and related organisations, Anti-Money Laundering (AML) or the identification of terrorist money. The company may add quantitative data to demonstrate how such issues are managed. Examples may be the amount of training on the implementation of AML procedures. This indicator may also cover newly arisen issues which are not yet covered in policies.		

Company examples for indicator CSR 4

Credit Suisse Group

Sustainability Report 2001

Credit Suisse Group endeavors to approach sensitive issues in an active manner and to bring about a solution – in cooperation with the industry sector or other stakeholders when appropriate. Credit Suisse Group provides information about such issues in its publications.

The Swiss Banks and the Second World War

Ever since the debate about the conduct of the Swiss banks during and after the Second World War, Credit Suisse Group has been committed to making amends both morally and financially. The review of the banking issues involved was brought to a close with the publication of the Volcker Committee final report. The report came to the conclusion that the banks carried out their business activities with great

professional diligence. There was no evidence of systematic discrimination against victims of Nazi persecution, nor of systematic concealment of assets or withholding of assets from their rightful owners. However, the report did document some extremely regrettable cases of human error and insensitivity. The dormant accounts discovered as part of the Volcker Committee's research are an element in the comprehensive settlement reached by Credit Suisse Group, UBS, the plaintiffs and the Jewish organizations in the 1998 class action brought in the USA. (Annual Report 1999/2000, p. 37, http://www.credit-suisse.com/en/annual_report_99/download/csg_ar99_p1_en.pdf)

Commitment to Maintaining a Swiss Airline

The events related to SAirGroup, and the commitment of the public and private sectors to maintaining a Swiss airline, have met with considerable interest and prompted often heated discussions both in Switzerland and abroad. Credit Suisse Group would like to explain its efforts and course of action concerning this issue.

On October 1, 2001, UBS and Credit Suisse Group announced a package of CHF 1.35 billion to support efforts to build up a new Swiss airline and maintain airline-related businesses. With this package, the banks were able to prevent the bankruptcy or the filing of a debt moratorium by the entire SAirGroup, to the benefit of all creditors and stakeholders. This in turn prevented the collapse of the entire company, including Crossair and the airline-related businesses, which would have had dramatic implications for the economy and for Zurich Airport, and would have resulted in tens of thousands of job losses. In addition, UBS and Credit Suisse Group agreed to voluntarily pay out the deposits of CHF 110 million held by SAirGroup employees in employee accounts with the company.

With this commitment, Credit Suisse Group has made a contribution towards maintaining the global position of Switzerland – its domestic market – and thus acted in keeping with the interests of its staff, clients, shareholders and other stakeholders in Switzerland and abroad. This financial package is commercially prudent. In addition, the major banks hoped that their efforts would help build confidence among further potential investors.

On Monday, October 22, 2001, it was announced that a broad-based financing of the new airline was essentially secured, subject to certain conditions, thanks to the combined efforts of a large number of private sector companies, individuals and the public sector. This solution is a sign of national solidarity and of collective determination under extraordinary circumstances. All of the investors have stated that they are willing to hold their stake in the new airline for at least twelve months. In view of the current uncertainty in the global airline industry, the investors are aware that there are risks associated with their commitment. (Quarterly Review Q3/2001, p. 7, www.creditsuisse.com/en/q3review2001/download/pdf/csg_qr3_2001_en.pdf)

Other areas covered: **China's Three Gorges Project; Chad-Cameroon Oil and Gas Pipeline**

The Co-operative Bank

The Partnership Report 2001

Ethical Policy implementation

During 2001, the Ethical Policy Unit reviewed the acceptability of 147 potential finance opportunities. Of those, 35% were found to be in conflict with the bank's Ethical Policy. From the data presented, the rationale for business decline is usually obvious. In the following instances, further explanation is necessary:

- ◆ The bank was approached to consider finance for a major UK engineering group involved in pipeline construction in the Sudan. The level of concern over the ecological and social impact of this venture meant that the bank was unable to support those companies engaged in the project.

- ◆ The bank's policy on the nuclear industry extends to not investing in any business which owns or operates a nuclear power plant or is in any business supplying major products or services for nuclear power plants. During the year, the bank declined to be involved in two businesses supplying the industry.
- ◆ The bank considers the acceptability of road construction proposals on a case by case basis, taking into account the specific ecological and social impact of each proposal. During the year, the bank was approached to support a major road construction project. It was unable to assist, primarily because the project failed to respect a number of Sites of Special Scientific Interest.
- ◆ The bank's policies on animal welfare meant it did not deal with eight organisations during 2001. Five organisations were involved in the production of cosmetics and household products and did not have a satisfactory animal testing policy. Two organisations were involved in intensive farming. One organisation was involved in blood sports.

Anti-money laundering

Money laundering is the disguising of funds derived from criminal activity to give them legal respectability. It has been estimated by the International Monetary Fund that such financial flows are equivalent to between 2 and 5% of global Gross Domestic Product. With effect from December 2001, the Financial Services Authority (FSA) has assumed greater formal powers to supervise and, where necessary, enforce corporate and individual compliance with laws and regulations relating to money laundering. All bank staff are obliged to report any transaction which they suspect might be related to drugs, terrorism or other serious crimes. Equally importantly, they are instructed not to reveal to a customer that they are being investigated. The bank is in the process of implementing additional awareness and training measures to underpin its full compliance with FSA requirements. Additionally, a money laundering helpdesk has been launched to help staff with any queries. It is widely accepted that, compared to other sectors of the economy, financial services has more rigorous anti-money laundering management systems. For example, of the 18,000 Suspicious Disclosures made to the National Criminal Investigation Services (NCIS) in 2000, more than 60% were attributable to banks, whilst just 2% arose from solicitors and accountants.

Westpac

Social Impact Report, July 2002

Anti-money laundering

We have implemented identification procedures and staff training to ensure compliance with anti-money laundering legislation and regulation. Our Policy also draws upon the Wolfsberg Principles for Private Banking and the various guidelines issued by the Financial Action Task Force, the Asia Pacific Group on Money Laundering and the United Nations Global Program Against Money Laundering. Under the Financial Transactions Report Acts (1988), we have reported some 5,000 suspect transactions over the past three years.

Westpac Mortgage and Income Fund

On 22 June, 2001 Westpac notified the market of the decline in value of the Mortgage and Income Fund and closed the Fund to new and additional investments.

The Australian Securities and Investments Commission (ASIC) commenced an investigation into the circumstances leading to the fund's closure and have finalised its investigation and decided to take no further action.

As a result of its own initiatives, and following discussions with ASIC, Westpac implemented some important additional review mechanisms in the complaints process for investors.

Reform of credit card schemes in Australia

The Reserve Bank of Australia has proposed reforms to credit card schemes in Australia following their formal 'designation' as a payment systems subject to its regulation in April 2001.

Westpac has supported the need for reform and is co-operating with the regulator in the reform process.

Zürcher Kantonalbank

Annual Report 2001

	2001	2000
Employees trained in money laundering and compliance aspects (These figures are subject to annual fluctuations; the reason for this is that every few years training programmes are implemented throughout the bank and then, in subsequent years, only for new employees or for departments where this is particularly relevant. At the same time, however, employees have access to PC-based training via the Intranet.)	1,138	3,600

Interpretation

The key function of this indicator is to see that sensitive issues are addressed by the company in an open and honest manner. By reporting, a company acknowledges that not all stakeholders may agree with certain business strategies and decisions. As the selection of sensitive issues is primarily the responsibility of the reporting institution, it should bear in mind that stakeholders may have completely different perceptions on which issues are sensitive or not. In case of internal failures, these should be addressed openly with an explanation of the corrective actions taken.

3.2.5 CSR 5: Non-Compliance

What the indicator aims at

Compliance with the law is one of the fundamental obligations of a company. Financial institutions operate in heavily regulated markets which reflects the high expectations and standards society and legislators set when allowing the management of funds which partly belong to third parties.

On the other hand, given the complexity of globally active financial institutions and the variety of legal obligations, the pursuit of 100% legal compliance is a challenge.

The indicator therefore focuses on non-compliance cases. This includes all legal obligations, not only socially relevant legislation. It thereby sets a motivation to reduce these cases to the possible minimum.

Stakeholders consulted expect the company to be transparent regarding its non-compliant activities and want to get information about corrective measures that have been undertaken.

Definition and scope of indicator CSR 5

CSR 5	Non-Compliance	Quantitative; # of recorded non-compliance incidents
Report on the number of non-compliance incidents with any law or regulatory code of conduct. To be counted (e.g., referrals to ombudsman, reports to an advertising standards authority) where the complaint was upheld and / or resulted in court action. Comments may include corrective action taken. Note: the specific legal context in the country of operation will have a significant impact on the implications of quantitative data generated through this indicator.		

Company example for indicator CSR 5

The Co-operative Bank

The Partnership Report 2000

Ecological Sustainability - Legislative compliance

‘... there were no instances of legislative non-compliance during 2000 in relation to environmental matters. Queries were raised for packaging waste. However, following review, in all instances the bank was found to be compliant.’

Interpretation

This indicator is the result of intense discussions with the stakeholders involved. While some stated that they would generally question data on non-compliance, others insisted that due to the high level of regulation of the financial sector they certainly required such information.

Transparency on cases of non-compliance also enhances the credibility of the compliance procedures installed.

In the discussion with stakeholders the issue came up that many legal disputes may be settled before court action is taken. However, it was concluded that such a settlement is a social act of finding consensus with an adversary which avoids the involvement of the courts, and would not have to be reported.

During interpretation and, especially, comparison of such data it has to be considered that the legal backgrounds of reporting institutions depend very much on the countries of operation.

3.2.6 CSR 6: Stakeholder Dialogue

What the indicator aims at

With this indicator the reporting institution displays which stakeholders a company identifies as important partners and how it interacts with them.

Stakeholder dialogue and consultation procedures may include:

- ◆ information
- ◆ consultation
- ◆ deciding together
- ◆ working together
- ◆ handing over responsibility

In particular with staff, companies should display the level of representation in decision-making.

Stakeholders consulted expect to see that all important stakeholder groups are accounted for and that there is a correct level of dialogue / interaction with these stakeholder groups.

Definition and scope of indicator CSR 6

CSR 6	Stakeholder Dialogue	Qualitative; Text
Describe stakeholder dialogue and involvement procedures.		
The company should identify its major stakeholders, including staff, clients, owners / shareholders, suppliers, and affected individuals / communities. With staff, describe active consultation and representation in decision making. Socially oriented awards received by the company may be mentioned. The AA1000 standard and guidelines provide an example for stakeholder accountability. For the results of dialogue with staff and suppliers, see also indicators INT 3 and SUP 2.		

Company examples for indicator CSR 6

Rabobank Group

Annual Report 2001

The Rabobank Group is the largest financial services provider in the Netherlands with almost 9 million clients and more than 825,000 members at the close of 2001. More than 3,400 of these members form the supervisory boards of the local Rabobank branches. It is therefore no more than logical that the Rabobank attaches such enormous value to social dialogue.

The Rabobank Group wishes not only to offer its own clients the best possible financial products and services, but also to make a contribution towards the economic and social development of its working area. An unceasing dialogue with the community is appropriate in this respect. This dialogue is manifest in different ways:

CONSULTATION WITH STAKEHOLDERS covers:

Use of the electronic purse by senior citizens and handicapped persons; Keeping senior citizens informed; Euro training for the blind and partially sighted; Small neighbourhood centres; Amnesty International; Message to the political world; Raiffeisen Lecture

NATIONAL AND INTERNATIONAL FORUMS covers:

Steering through consultation; World Business Council; Sustainability rating; Encouraging voluntary work

AGREEMENTS covers:

The strength of agreements; Agreement on the package of primary payment services; Occupational health and safety agreement for the banking sector; Agreement on organic pig farming; Agreements for the organic poultry farming sector; Agreement for the organic fruit growing sector

PROJECTS covers:

Strengthening the aspect of well-being in the community; Rabo International Advisory Services; ICT projects in the educational sector; NIDO project: 'From financial gain to sustainable profit'

CULTURAL DIVERSITY:

The Rabobank Group strives to achieve a natural implementation of cultural diversity in its various activities. The group's Diversity Office advises the organisational units on how they can deal with diversity as providers of financial services, and as cooperative societies.

In October 2001 the Diversity Office, in association with the group's VrouwenNetwerk (Female Employees' Network), Jong Rabo (Young Rabo) and the Rabobank Academy, organised a seminar on diversity.

Other activities undertaken concern inter alia:

- ◆ giving support to ethnical entrepreneurs by organising informative meetings;
- ◆ organising visits to companies and giving training courses in job interviews for students of foreign origin;
- ◆ developing a cultural diversity training module for Rabobank employees.

Swiss Re

Environmental and Social Report 2001

Recognising that the vision of sustainability is attainable only through common effort, Swiss Re has been cultivating an ongoing dialogue with its key stakeholders for several years.

What does Swiss Re hope to achieve through its stakeholder dialogue?

- ◆ to increase awareness and understanding of sustainability and environmental factors;
- ◆ working together with stakeholders, to advance Swiss Re's expertise in environmentally sound and socially responsible economic progress, developing relevant solutions;
- ◆ to recognise and manage known and new risks promptly.

Internal dialogue

Environmental and social responsibility among our employees is crucial if we are to successfully implement and continually improve our sustainability management. This makes internal communications and active knowledge management – through training and exchange of experience – vitally important.

(areas covered: Raising Awareness, Training, Knowledge Networks, Environmental experts' workshops)

External dialogue

Seminars and presentations

In September 2001, at the presentation of the half-year results to the media and financial analysts, internal experts held a poster exhibition illustrating the sustainability activities of Swiss Re. This event was broadcast live to employees on internal corporate television.

In 2001, Swiss Re once again held a series of client events on environment, climate and sustainability, including:

- ◆ Product & Knowledge Fair (Rüschlikon, March 2001)
- ◆ Environmental law seminar: UK, EU and US environmental liabilities and the implications for insurers (London, July 2001)
- ◆ Several presentations and workshops focusing on European winter storms as well as climate change and possible impacts on the insurance industry
- ◆ Reducing Greenhouse Gas Emissions Conference (Rüschlikon, October 2001)
- ◆ Pollution and environmental insurance seminars (Tokyo, December 2001)
- ◆ Environmental claims management seminar (Armonk NY, October 2001)

In addition to these client seminars, Swiss Re specialists gave many presentations on sustainability topics and participate in panel discussions at national and international symposia.

(other areas covered: Memberships, Publications, Swiss Re rated as sustainability leader)

Interpretation

The need for and benefit of stakeholder consultation was clearly seen by all participating financial institutions.

The question is how far this consultation process goes and any resulting responsiveness.

3.2.7 Stakeholder Feedback to the Indicators on CSR Management

Tauni Brooker, Core Ratings (formerly with WBCSD):

“CSR Audits (CSR 3): The aggregate number of audits (or assurance) is not [the] goal, [rather one should] describe the procedure and mandate given to the auditing company. What did the auditor do, did they audit data or the process?

Management of sensitive issues (CSR 4): This section duplicates later sections of the document and all the other later indicators referring to ‘sensitive issues’. I feel that discussion of sensitive issues (in other words, the possible – but real – negative impacts of financial companies) should not be bundled into one section but rather discussed under each relevant heading.”

Christoph Buholzer, ACTARES:

“Management of Sensitive Issues (CSR 4): The inclusion of quantitative data (as shown in the Co-operative Banks' example) together with a description of the most challenging cases significantly rises the report's credibility. Quantitative data give an idea to the reader of the frequency of critical decisions the institution is faced to. Not to request any could lead to a casual listing of some positively managed issues which might not include the really important cases.

Stakeholder Dialogue (CSR 6): Include the subjects discussed with the different stakeholders.”

Ivo Knoepfel, OnValues (formerly with Dow Jones Sustainability Group Index / SAM):

“Non-Compliance (CSR 5): In the GRI revision working group we have long debated Non-compliance indicators and come to the conclusion that, unfortunately, the data available is not robust enough, covers only very few countries and is very country-dependent. What will be the source of data for this indicator: the reporting entity, public sources? I'm afraid that this indicator will not be very reliable.”

Andreas Missbach, Berne Declaration:

“CSR Policy (CSR 1): Under investment policy we would prefer [to see] business areas [mentioned] where it is likely that human rights are negatively affected, such as mining, fossil fuel exploration and transportation, forest products / forest conversion, large dams and large infrastructure / industrial projects. NGOs will campaign for the adoption of sector specific policies by banks in the coming years.

CSR Organisation (CSR 2): We would have preferred additional quantitative information such as number of staff responsible for CSR in absolute figures and as a percentage of total staff and CSR costs as percentage of total costs.

Management of Sensitive Issues (CSR 4): Among the list of sensitive issues that are not business area specific we miss ‘tax evasion’ and ‘currency speculation and stability of the financial system’.”

Christoph Weber-Berg, Evang.-ref. Landeskirche des Kantons Zürich:

“Stakeholder Dialogue (CSR 6): The problems of stakeholder identification and importance are not mentioned. Companies should be invited to report on how they identify stakeholders and how they determine their respective importance.”

3.3 Internal Social Performance

The first social responsibility of a company is geared towards the people working for it. This internal social behaviour and performance goes from caring for physical security, health and well-being to considering the relevant socio-political issues of the societies the company works in.

The following indicators are proposed by the project group:

- ◆ INT 1: Internal CSR Policy
- ◆ INT 2: Employee Turnover and Job Creation
- ◆ INT 3: Employee Satisfaction
- ◆ INT 4: Senior Management Remuneration
- ◆ INT 5: Bonuses Fostering Sustainable Success
- ◆ INT 6: Female-Male Salary Relation
- ◆ INT 7: Employee Profile

Typically, the general lines of a company's behaviour in these areas are covered in a written staff oriented policy (see INT 1). Besides this, a number of output indicators are proposed in this section. Since physical security is usually a limited issue in financial institutions, it is only covered as an element of the employee satisfaction (INT 3). The indicators describe the uptake of social issues which are commonly relevant for financial institutions.

3.3.1 INT 1: Internal CSR Policy

What the indicator aims at

This indicator aims to enable the understanding of the core values which a company strives to carry out in relations with its employees. Understanding the internal CSR policy gives insight as to which societal values, responsibilities and goals a company recognises and wishes to support.

Definition and scope of indicator INT 1

INT 1	Internal CSR Policy	Qualitative; Text
Describe social responsibility issues covered in the company's human resources policies. Policy elements may be contained in various internal documents. A company may publish its policies or – if too long – describe their contents. Policies may include: ◆ equal opportunity / anti-discrimination, including equal pay for equal work, ◆ anti-harassment policy, ◆ freedom of association (including unions), ◆ training and people development, ◆ part-time employment / job sharing, ◆ layoff policy (including out-placement support), ◆ anonymous feedback facility, ◆ health & safety, in particular on stress and ergonomics.		

Company examples for indicator INT 1

Deutsche Bank

Social responsibility issues are covered in our groupwide and country specific human resources policies. Policy elements are contained in various internal documents. These policies cover all fields of Corporate Social Responsibility to ensure a common understanding:

Employment and Social Protection, e.g.:

Corporate Identity Survey; Internal Job Market; Insurance; Employee Pension Scheme (e.g. Germany); Pension Fund; Pensioners' Part Time Working Opportunities; Outsourcing; Recruiting; Social Plan (e.g. Germany)

Fair Compensation, e.g.:

Benefits; Bonus Payments; Collective Bargaining Agreements (e.g. Germany); Compensation; Incentives

Working Conditions, e.g.:

Distance Working / Teleworking (e.g. Germany); Employee Data Protection / Cross Border Data Protection; Part Time Work (e.g. Germany); Personnel Appraisals (e.g. Germany); Proposal for Improvement (e.g. Germany); Work Environment

Equal Opportunities and Non-Discrimination, e.g.:

Handicapped Persons (e.g. Germany); Non-Discrimination; State of being in need of Care (e.g. Germany); Diversity; Grading

People Development and Training, e.g.:

Apprenticeship (e.g. Germany); Compliance; Development; Employability; Job Security; Training; Language Training; Advanced Professional Training

Development Bank of Southern Africa

Human Resources Statement of Intent 2001

POLICY

It is generally accepted that any organisation, however large or small, can only be as good as the people who serve it. This is reflected in the policy the Bank has adopted in the employment of employees and in their conditions of employment.

The Bank is committed to eliminating discrimination in decision-making about employee's careers, pay and benefits. Managers must take no account of gender, ethnic origin or any other discriminatory basis when setting salaries.

PROCEDURE

As an employer, the Bank pledges itself to the following objectives:

- 1.0 The Bank strives to attract, retain and maintain an effective and efficient workforce, regardless of age, creed, gender, religion, race, colour and physical disability to execute its mandate in a safe and congenial working environment, however, the Bank will also seek to address past inequalities through following an Affirmative Action policy to advance historically disadvantaged groups.
- 2.0 The building of a culture in which every staff member will enjoy benefits commensurate with the position that he / she occupies in the Bank.
- 3.0 Staff members will be afforded opportunities for recognition, promotion, training and development.
- 4.0 All staff members will be motivated to achieve job satisfaction by means of their contribution to the achievement of the Bank's strategic objectives.
- 5.0 The Bank recognises the changing environment in which it operates and therefore endeavours to re-skill and multi-skill its staff according to its needs and demands.

The policies and procedures set out in this document are designed to create clarity in terms of conditions of employment, and specifically to assist Managers in the application of fair and just management practices. Nevertheless, Managers are encouraged to use their best judgement at all times, to be supportive of the policies and procedures, and to use their best endeavours to ensure that the policies and procedures are used constructively in the promotion of a culture of continuous improvement at the Development Bank of Southern Africa.

Purpose, Policy and Procedure are set out for the following areas:

- ◆ Sexual Harassment
- ◆ Reduced Working Hours/Days Policy
- ◆ Retrenchment / Outplacement Policy and Guidelines

Interpretation

The internal CSR policy contains normative elements; its realisation may either be current practise or a goal. This indicator does not inform about the results ("the output") of social management.

In any societal environment, an issue may have been obvious for a long time, may currently be under discussion or may not even be an issue (yet). The fact that an issue is not mentioned in a policy may therefore either be understood as "obvious" (no need to mention), or as actually not treated at all in the company.

A policy is generally valid for a whole company. Sometimes, however, it is valid only for certain business locations, e.g. the main location or the headquarters. Also, there may be different internal policies for different areas of the world.

Many internal social performance issues are subjects of the International Labour Organisation's (ILO) Conventions and Recommendations. Such conventions are decided on by representatives from governments, employer and employee organisations. They are geared towards legal frameworks or collective bargaining, but may also serve in the formulation of company policies. The legal implementation of ILO provisions varies between countries. Of special interest to the financial industry is the "Compendium of work and employment of professional workers – Compendium of principles and good practices" published in 1990, covering the specific situation of highly qualified staff. From the fundamental ILO Conventions (see <http://www.ilo.org/public/english/standards/norm/whatare/fundam/index.htm>), discrimination and equal remuneration issues are taken up by indicator INT 6.

Staff oriented policies may cover a large range of issues, therefore consisting of long texts. A company may wish to describe its policies rather than publish them in detail. However, care should be taken to include the actual policy content "non-smoking areas in all offices") rather than the mentioning of issues ("non-smokers' needs") only.

3.3.2 INT 2: Employee Turnover and Job Creation

What the indicator aims at

The indicator gives an insight into the number of jobs and its development over time. This analysis allows the measurement of two important but quite distinct performance elements:

- a) The number of jobs created: New jobs created indicate a performance towards people who join the company.
- b) The number and share of existing staff leaving the company: The development of the turnover rate is an important auxiliary measure of employee satisfaction.

Definition and scope of indicator INT 2

INT 2

Staff Turnover and Job Creation

Quantitative; %

Staff Turnover: percentage of staff having left the company in a given year ($[\text{staff having left}] / [\text{staff at end of previous year}] * 100$). Not to be included are pension leaves and deaths.

The company should comment how staff are counted (e.g., full time equivalents). The company may wish to report turnover per region or business sector. Major structural changes such as mergers, acquisitions, layoffs and disinvestments should be commented on.

Job creation: net change of staff during a given year ($[\text{staff at end of year}] - [\text{staff at end of previous year}]$)

Company examples for indicator INT 2

Credit Suisse Group

Sustainability Report 2001

Staff		As of 31.12.2001	As of 31.12.2000	Change from 2000 in %
Switzerland	Banking	22,346	21,454	+ 4
	Insurance	6,297	6,781	- 7
Abroad	Banking	28,415	30,666	- 7
	Insurance	22,641	21,637	+ 5
Total Staff		79,699	80,538	- 1

Voluntary departures:

The rate for voluntary departures from Credit Suisse Group was 10.3 % in 2001. This represents a reduction from the 2000 voluntary turnover rate of 11.3 % by a tenth and is competitive within the financial services industry. This measure provides evidence of an ever increasing high degree of employee satisfaction and loyalty.

Job reductions:

Following the acquisition of the investment bank Donaldson, Lufkin & Jenrette and the general economic downturn in the financial services sector, necessary cost reduction measures commenced in 2001. These measures were implemented to ensure the continued competitiveness of Credit Suisse First Boston and inevitably involved a reduction in staff costs, including the cutting of 2,500 jobs. The employees concerned were assisted with their search for new work.

At Credit Suisse Financial Services, a reduction of between 700 and 800 jobs was announced in mid-2001 as part of the rationalization of the business unit's organizational structure. Special intranet sites and fair-play rules ensured that everyone was kept regularly informed and that the redeployment processes treated all employees equally. Measures were formulated in collaboration with the Staff Commis-

sion in Switzerland to help employees find new jobs; where requested, retraining and early retirement opportunities were also offered. This streamlining process should be carried out over the next two years and will as far as possible be effected through normal attrition. Despite all efforts to limit redundancies, some employees experienced periods of uncertainty.

Year	# staff beginning of year	# staff end of year	Turnover %	Job Creation (# staff)
Deutsche Bank				
2001	98,311	94,782	8	-3,529*
* primarily due to staff reduction and several divestitures; Job creation is focused on all core businesses of Deutsche Bank Group, where we want to be an employer of choice.				
Development Bank of Southern Africa				
2000	440	426	6.1	-14
1999	460	438	7.4	-22
1998	463	458	4.1	-5
Zürcher Kantonalbank				
Annual Report 2001 (staff in full-time equivalents)				
2001	4,071	4,298	9.5	227
2000	3,873	4,071	12.2	198

Interpretation

The number of jobs created is a positive social performance towards society, but also internally, as it influences the feeling of job security for existing staff.

The number of jobs created may be analysed on a year-to-year basis, but should be interpreted over longer periods.

For companies with a major workforce in more than one area, major staff increases in one area might be statistically offset by layoffs in another area.

Turnover figures show the average duration of employee affiliation: a turnover rate of 12.5 % means that on the statistical average employees stay in the company for 8 years.

Turnover rates are influenced by the economic situation, the flexibility of labour markets, company strategy and cultural values.

A substantial rise in turnover rate in a given company – notwithstanding the absolute previous level – is often a sign of increased dynamics, e.g. a major strategy shift, a financial turn-around, etc., whereby a large number of employees either voluntarily or involuntarily leaves the company.

In relation to layoffs, the stakeholders consulted expressed a distinct interest in both quantitative and qualitative information about how a company handles such layoffs in practice. In particular, major structural changes influencing turnover rate and / or the number of jobs should be commented on.

3.3.3 INT 3: Employee Satisfaction

What the indicator aims at

Social performance towards employees may, to a considerable extent, be directly measured by asking employees about their satisfaction with the company. Measurement of employee satisfaction has a long tradition generally in many companies, often being a central information source. Measuring the level and development of employee satisfaction can help indicate to what extent the company's social policies and measures are effective.

In general, employee satisfaction will be assessed based on employee surveys. This may take many forms, e.g. various types of questionnaires for all employees, in-depth interviews led by external specialists, or a combination of approaches. This in turn means that results are sometimes not directly comparable between companies. Therefore, the aim of this indicator is primarily to compare the development of employee satisfaction within a company over time (rather than between companies).

The primary addressees of this indicator are the company's management and its employees. However, also external persons considering joining the company, as well as trade unions will be interested in this information.

Definition and scope of indicator INT 3

INT 3	Employee Satisfaction	Quantitative; Survey results (% , scale)
Report on employee satisfaction, based on survey results, covering:		
◆ job security, ◆ remuneration & benefits, ◆ work / life-balance (including work pressure and stress), ◆ training & development, ◆ internal communication culture, ◆ company's social performance towards society.		

Company examples for indicator INT 3

Deutsche Bank

We have developed our 'Employee Commitment Index' on the basis of an employee satisfaction survey. Our Employee Commitment Index reached the high value of 70 points out of 100 in 2001.

Commitment is defined as the ability to identify with one's company, its goals and values (our group-wide global Code of Conduct), the engagement and the inclination to stay with the company.



Interpretation

A general employee satisfaction analysis needs a periodical survey among all employees.

Length and level of detail of a survey are not signs of quality. It is, next to the results of course, rather the type of questions which has to be considered.

Often the choice of issues covered by an employee satisfaction survey – and those issues not covered – by itself indicates the company's internal social situation. Not to cover an issue that is broadly discussed in a certain country may either mean that the issue has been totally solved within the company for quite some time, or it is a sign of management evading the very discussion.

This indicator is possibly the best example of an indicator about results, as high overall employee satisfaction to a large extent is the prime goal of any internal CSR activity, even when acknowledging that the results reflect subjective impressions.

Satisfaction of employees will depend on various aspects of the working environment. In the definition, major areas of employee satisfaction are enumerated (see the non-exhaustive list in the definition box above). Expressing a satisfaction level will therefore always cover many aspects "in a nutshell". These aspects change over time, they differ between countries and regions, and they may vary between companies.

3.3.4 INT 4: Senior Management Remuneration

What the indicator aims at

Remuneration of senior management has increasingly moved into the focus of public attention in recent years. Transparency on senior management remuneration – including all forms of direct and indirect payments as well as fringe benefits – is seen as a prerequisite for good corporate governance. Formal requirements have been introduced in many countries to assure a certain transparency.

Definition and scope of indicator INT 4

INT 4

Senior Management Remuneration

Quantitative; \$

Report on remuneration of senior management and board of directors. Includes all compensation e.g., as defined in USA SEC Form 20-F.

Company examples for indicator INT 4

Deutsche Bank

As stated in SEC Form 20-F the aggregate remuneration that we paid to our Board of Managing Directors for the year 2001 was EUR 56,486,896.

Currently the remuneration of top management is not published on an individual basis.

UBS

Financial Report 2001

Total remuneration to related parties* recognized in the income statement amounted to CHF 321.4 million in 2001, CHF 272.3 million in 2000 and CHF 193.1 million in 1999, including accrued pension benefits of approximately CHF 35.4 million in 2001, CHF 30.0 million in 2000 and CHF 21.2 million in 1999. The remuneration paid to related parties in 2001 includes approximately USD 70 million (CHF 118 million) paid to employees of Paine Webber Group, Inc. who joined UBS at the merger on 3 November 2000.

The number of long-term stock options outstanding to related parties from equity plans was 8,366,103 at 31 December 2001 and 4,693,458 at 31 December 2000. These plans are further explained in Note 33 Equity Participation Plans.

*Related parties include Associated companies, the Board of Directors, the Group Executive Board, the Group Managing Board, close family members and enterprises which are controlled by these individuals as well as certain persons performing similar functions.

Westpac

Director's Report 2001

Executive directors and senior executives

Details of the nature and amount of each element of the emolument of each of our executive directors for the year ended 30 September 2001 are:

Name and position	Compensation				Option grants
	Base pay ¹ \$	Short term incentive ¹ \$	Other ² \$	Total \$	
David Morgan Managing Director and Chief Executive Officer	1,225,000	1,100,000	183,084	2,508,084	–
Patrick Handley Former Executive Director (Resigned 31 January 2001)	285,417	–	4,986,878 ³	5,272,295	–

Notes:

- 1 Base pay has been received in the year to 30 September 2001. Short-term incentive figures reflect annual performance awards accrued but not yet paid in respect of the year ended 30 September 2001.
- 2 Other compensation is determined on the basis of the cost to us and includes all fringe benefits tax and superannuation surchargeable contributions for those executives who are members of our Staff Superannuation Plan, as determined by the Plan's actuary, housing (plus fringe benefits tax), car parking (plus fringe benefits tax) and other benefits, such as commencement incentives and separation payments.
- 3 This amount includes \$4,906,274 representing long term benefits comprised of payments made to offset income tax differences between Australia and the United States accumulated over a seven year period and a long term incentive payment covering performance over a three year period. The balance comprises other compensation described in note 2 above.

Details of the nature and amount of each element of the emolument of each of our six most senior executives, in addition to the executive directors, for the year ended 30 September 2001 are:

Name and position	Compensation				Option grants ³		
	Base pay ¹ \$	Short term incentive ¹ \$	Other ² \$	Total \$	No. of shares	Exercise price \$	Date first exercisable
David Clarke Group Executive, Banking and Financial Solutions	650,000	525,000	9,614	1,184,614	950,000	12.75	5 November 2004
Michael Hawker Group Executive, Business and Consumer Banking	572,916	525,000	51,440	1,149,356	–	–	–
David Willis Group Executive, Westpac Institutional Bank	525,000	570,000	18,086	1,113,086	600,000	14.70	9 January 2005
Philip Chronican Chief Financial Officer	420,834	405,000	53,216	879,050	500,000 200,000	14.70 13.85	9 January 2005 19 March 2004
Ann Sherry Group Executive, People and Performance	382,500	250,000	98,292	730,792	300,000	14.70	9 January 2005
Christopher Skilton Former Group Executive, WestpacTrust, Pacific Banking and PEP (effective 16 March 2001)	205,208	–	1,228,165	1,433,373	–	–	–

Notes:

- 1 and 2 Refer to notes for the executive directors remuneration table above.
- 3 Option grants are a right to buy ordinary shares at an exercise price equal to the market value at the date of the offer determined in accordance with the plan rules. The options are recognised in the table above based on the year in respect of which they are granted. The options will be granted with a ten year term pursuant to the General Management Share Option Plan, under which the number of options exercisable depends on our performance against prescribed performance hurdles. Under our US GAAP disclosures, the fair value of options for the purposes of inclusion in the potential compensation expense has been determined using the Black-Scholes option pricing model. The factors that are considered in the Black-Scholes option pricing model include the term of the option, the risk free interest rate, volatility of the share price, the dividend yield and a discount factor to reflect the probability of reaching the performance hurdle. The notional value of the options first exercisable in March 2004 has been assessed at \$1.97. The grant of options first exercisable in November 2004 and January 2005 have not been issued as at 2 November 2001. The notional value for these grants has been assessed at \$1.81 and \$2.02 respectively.

Note: This table discloses remuneration for the six most highly paid senior executives involved in the management of the affairs of Westpac other than executive directors. Other individuals who are rewarded under incentive-based systems according to results, consistent with market practice within the industry, may within any given year receive remuneration at a level in excess of that received by some executives shown.

Interpretation

The indicator gives information on the payments and fringe benefits for senior management. Since top senior management – board and executive – to a certain extent decide on their remuneration themselves e.g. by a compensation committee, this is relevant information for both the owners and the general staff.

It is useful to mention which forms of payments and benefits are included, or according to which format they are considered. Payments to individuals' pension accounts should be included as well.

There is an ongoing discussion as to whether the information of this indicator should be presented in a global figure (e.g. total remuneration per corporate body) or on an individual basis (i.e. the remuneration of each person). While the former is a possibility according to the e.g. Swiss Code of Best Practice on Corporate Governance (2002), the latter is demanded by e.g. Australian law. There are differing opinions as to the effects of each publication type.

Senior management usually receives the highest remuneration in a company. However, in certain years, boni of other staff may be higher.

3.3.5 INT 5: Bonuses Fostering Sustainable Success

What the indicator aims at

Bonuses have become an important remuneration element in the financial industry. In many cases they are a major driver for individual and / or group performance. If bonuses are purely geared towards short term financial results, it may lead staff to neglect other issues. From a social performance point of view it is therefore important that bonus criteria cover social impacts of the bank's activities as well.

Even from a purely financial perspective, it is in the interest of most stakeholders (owners, staff, etc.) that short-term financial performance is not achieved at the expense of medium-term financial performance, thereby endangering the company's existence.

The indicator therefore covers bonuses which include either of these two elements in their criteria.

Definition and scope of indicator INT 5

INT 5 *	Bonuses Fostering Sustainable Success	Additional*; Text or %
Report on bonuses that are not oriented purely towards short term financial success, but which contain additional sustainability elements, i.e., bonuses based on: ◆ medium and long term successes and / or ◆ achieving social and environmental performance criteria. To be reported only where bonuses make up a material part of remuneration.		

* additional = the indicator is important for measuring performance, but does not qualify as a KPI due to local, regional or legal context (see section 3.1)

Company examples for indicator INT 5

Swiss Re

In a world of globalization, Swiss Re's business environment has become increasingly competitive and dynamic in recent years. To ensure our continued sustainable success and growth we must build on this reputation. In these times the contribution of every employee is essential and has to be acknowledged accordingly. Therefore, Swiss Re's compensation philosophy is to reward performance and encourage its employees to become shareholders.

Equity Compensation in Swiss Re – Swiss Re Bonus Shares

Employees can choose to receive their bonus in cash or shares (or a mix). This choice is rewarded by uplifting the amount taken in shares by 25%. The holding period of the shares is 4 years. Senior Management, in some locations, is subject to additional rules.

Swiss Re Stock Options

The Swiss Re Stock Option Plan is a long-term incentive that allows key people who play a critical and influential role in its business to participate in the future of Swiss Re. Swiss Re awards stock options to those key employees whose performance and leadership assessment indicate strong future performance at higher levels throughout the organization. The vesting period of the options is 4 years, the exercise period 6 years.

Swiss Re Employee Participation Plan

Employees can invest up to 10% of their annual base salary in Swiss Re's Swiss Re shares and receive a gross matching contribution between 30 – 50%.

Westpac

Social Impact Report, July 2002

Executive remuneration fostering sustainable development

Our executive remuneration philosophy is to link performance rewards to achievements against a balanced scorecard. This means individual executive performance objectives include measures linked not only to financial objectives but also to delivering for staff, customers and the broader community. A minimum of twenty per cent of any performance reward is formally linked to meeting these non-financial objectives. Details of executive remuneration are on pages 54 to 57 of the 2001 Concise Annual Report.

Interpretation

The indicator gives an impression as to the extent a company includes social performance goals into the MbO (Management by Objectives) in its most straightforward form, i.e. payment based on achieving or increasing social performance goals.

The indicator was chosen since parts of the financial industry intensively use bonuses to drive their activities. However, since bonuses are not equally relevant in all financial institutions (e.g. counted as percent of total remuneration), the indicator was defined as an "additional indicator".

The social performance aspects which qualify may stem from all areas covered in this report: a bonus in investment banking may partially depend on assuring the consideration of local populations' needs in investment projects, a bonus in the purchasing department may partially depend on assuring and / or controlling suppliers' social performance, etc. A way to do so is to assess bonus entitlement based on multiple criteria, e.g. on a balanced scorecard assessment.

This indicator could be used for all sustainability elements: Bonuses are very often oriented towards market performance, quite often also towards financial performance. Social criteria (e.g. as defined in this project) or environmental criteria are used to a lesser extent.

3.3.6 INT 6: Female-Male Salary Relation

What the indicator aims at

Equal pay for equal work is a basic human right set forth in the Universal Declaration of Human Rights article 23. Even in today's world, discrimination still occurs on the grounds of gender, ethnic origin or religion. Each such discrimination violates this human right. Discussions in the project group and with stakeholders led us to conclude that gender discrimination is probably the first issue a financial institution should cover today.

The indicator aims for transparency concerning salary relations of male and female staff, analysed by a number of hierarchical levels.

Definition and scope of indicator INT 6

INT 6 *

Female-Male Salary Ratio

Additional*; ratio

Report on ratio of female to male salaries including bonuses, etc. per hierarchy level.

Companies may add salary relations based on ethnic backgrounds in countries where this issue is of high relevance. Consider legal implications that may affect disclosure of female-male salary ratio data. Multinational companies may wish to publish data for their major locations only.

* additional = the indicator is important for measuring performance, but does not qualify as a KPI due to local, regional or legal context (see section 3.1)

Company examples for indicator INT 6

Co-operative Insurance and Development Bank of Southern Africa

Data from 2001

Female-Male Salary Ratio: Percentage of average female salary compared to average male salary (=100%)

	CIS	DBSA
average senior executive	n.a.*	n.a.**
average senior management	89.7%	94.3%
average middle management	95.4%	89.9%
average workforce	92.1%	101.3%

* no female at the time

** equitable based on job size

Male/female salary comparisons

Grade	Average salary (\$)	
	Male	Female
Executive	323,640	321,688
Management	89,120	75,363
Non-Management	37,645	34,896

- Westpac pays equal pay for equal work. Differences in the average salary for male and female employee reflect the higher proportion of males in more senior roles within these grades.

Interpretation

The indicator shows the salary relations between male and female staff of comparable hierarchical levels. It does not show salary relations of specific posts.

This indicator will always reflect both company gender policy as well as the general societal gender situation. The effects of company policies will show over time and when comparing companies working in a comparable social environment. However, societal situations may also change in the longer run.

The indicator does not express absolute figures. Data of various geographical areas may therefore be combined (specifying whether averages of salaries or percentages have been calculated). A company operating in various countries may decide to publish data for major locations only.

Within a hierarchical level, there usually are various types of jobs which typically may be filled by either men or women. Therefore, one will rarely find a company with totally equal pay at a given hierarchical level. One may then ask whether such a company structure is the result of societal structures or of individual staff's choices.

An example of such a systematic bias can e.g. be found when running a telephone call centre in a western country. This will often lead to an overrepresentation of mothers accepting lower wages in return for flexible working hours. This fact can hardly be attributed to the company's gender policy. On the other hand, systematic lower pay to females in management will probably more be influenced by the company's internal promotion and pay policy.

Work experience is an important element of pay. Mothers that have taken care of children are lacking periods of work experience and will have difficulties reaching equal levels and earning equally. They will still get equal pay for equal work, but they will – on the average – remain on lower levels.

Another example is that women on child leave may systematically miss one round of salary negotiations. One participating institution reported that, for this reason, they have introduced specific programmes to promote women's careers and pay levels, e.g. an additional annual salary check for those women concerned.

If other equality issues are important for an institution, it may choose to report its salary relations on other criteria as well (see the DBSA profile data in INT 7, where a major issue may be called 'empowering the (African) majority').

Depending on the legal framework and practice in the countries of operation, companies might not report on this indicator due to litigation risks.

Equal pay for equal work is the basic element reflected in this indicator. But the indicator also reports on the effects of all other policies promoting (or hindering) equal opportunity for staff. Employee profile data (INT 7) is therefore helpful when interpreting this indicator.

3.3.7 INT 7: Employee Profile

What the indicator aims at

An institution first of all consists of the people running it. In order to understand an institution's equal opportunity (or non-discrimination) policy, this indicator aims to create transparency on the internal employee structure. Such data is helpful for managing and discussing numerous staff-related equal opportunity issues and provides an indication of the effectiveness of a company's equal opportunity policies and measures.

There are various equal opportunity issues to be found in today's societies. The indicator asks for data on some of those issues – the ones most relevant today according to the financial institutions and the stakeholders which participated in this project.

Definition and scope of indicator INT 7

INT 7	Employee Profile	Quantitative; %
Report on employee profile per hierarchy level and country according to:		
◆ gender, ◆ ethnicity (for countries where this issue is of high relevance) and ◆ disability.		
Consider legal implications that may affect disclosure of employee profile data. Multinational companies may wish to publish data for their major locations only.		

Company examples for indicator INT 7

Development Bank of Southern Africa

Data from 2001

Hierarchy level	Male	Female	PDIs*	Disabled	Average age (years)
Executive Management	6	1	5	0	45
Management	15	9	18	0	43
Professional Staff	162	72	81	0	45
Support Staff	43	116	109	0	44

* PDIs = Previously disadvantaged individuals. In this example, includes: African, Asian & Coloured

Rabobank Group

Annual Report 2001

Workforce composition ¹⁾

	No. Of employees	Percentage female	Percentage in part time	Percentage female in higher positions (8+)	Percentage contract for a specified period	Percentage up to 34 years of age ²⁾	Percentage 55 years old and over ²⁾	Percentage HBO/WO-diploma ³⁾
Total 2000	45,068	55.4%	27.6%	13.1%	10.2%	51.8%	3.9%	34.0%
Total 2001	46,330	56.8%	31.7%	14.6%	9.8%	50.5%	4.6%	38.8%
Lokale Rabobanken	38,189	61.7%	35.1%	11.3%	10.6%	53.1%	4.2%	34.8%
Aandachtsgebied AB	2,440	35.4%	13.9%	19.3%	5.8%	35.9%	8.2%	78.9%
RNE	321	27.7%	12.8%	24.8%	7.2%	51.4%	5.3%	
Rabofacet	2,324	26.2%	14.8%	13.2%	4.9%	32.0%	8.1%	44.5%
Rabobank Internat.	580	28.4%	10.9%	17.3%	7.2%	50.7%	3.1%	65.7%
Group Treasury	69	18.8%	0%	15.7%	15.9%	50.7%	0%	
Group Treasury Support	254	29.1%	9.4%	20.5%	6.7%	50.4%	2.8%	
Corporate Clients NL	129	34.1%	17.1%	22.2%	1.6%	36.4%	3.9%	
Schretlen & Co	230	35.7%	22.6%	11.0%	6.1%	50.9%	3.9%	
IPB & Trust	24	54.2%	20.8%	43.8%	12.5%	54.2%	0%	
De Lage Landen	712	41.4%	18.8%	15.4%	10.7%	46.5%	2.2%	
Stafgroepen & Diensten	999	47.5%	23.8%	29.0%	3.9%	34.1%	8.1%	69.4%
Vastgoed	55	34.5%	5.5%	13.5%	3.6%	34.5%	5.5%	
Project Euro & 2000	4	50%	50%	0%	0%	0%	25%	

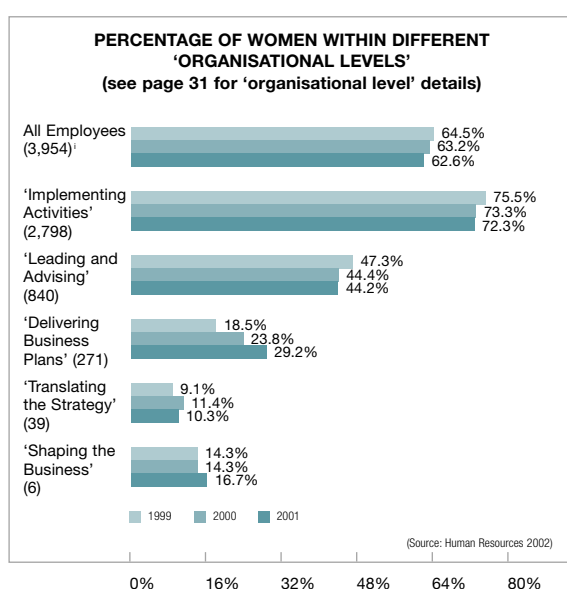
1) The figures do not include the figures for Interpolis, Robeco, Stroeve, Gilde Investments and the foreign offices.

2) The age category of 35-54 has been omitted; together, the three age categories add up to 100%.

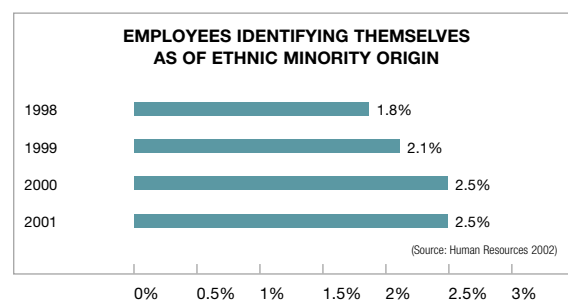
3) There is no data available on Schretlen & Co, and De Lage Landen, the other units cannot be distinguished separately.

The Co-operative Bank

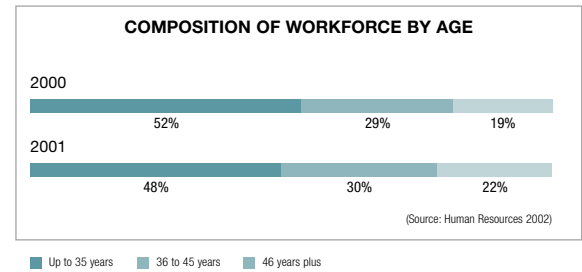
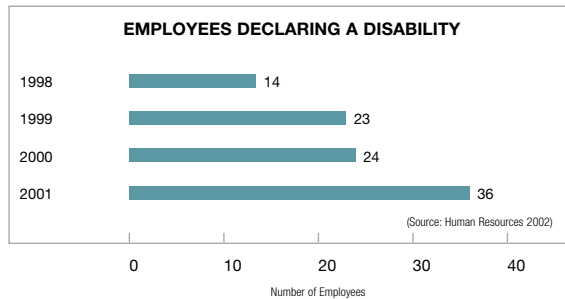
The Partnership Report 2001



ⁱ Brackets show total number of staff within each 'organisational level'
(Excludes staff on maternity leave or career break and all staff on relief contracts)



^B (cf. 5.9% national economically active ethnic minority population, Labour Force Survey, Spring 2001)



Interpretation

The indicator gives an impression to what extent equal opportunity policies have already been translated into practice.

In order to calculate this indicator, the company needs individual information on staff members. The situation may vary between countries as to how such equal opportunity issues are treated: For example, whilst measures aimed towards equal opportunity on ethnic grounds is a positive task for companies in Great Britain (in order to promote equal opportunities for ethnic minorities), Australian companies are not even allowed to ask for ethnic background information (as a protection against possible discrimination). In some cases it may also be difficult to accurately determine staff profile. For examples, some staff may be reluctant to declare disability or ethnicity for fear of discrimination.

For some of the criteria, no simple definitions apply: The definition of ethnicity may be subject to individual judgement (e.g. in the case of a person having ethnically mixed parents). The definition of disability usually depends on the legal framework of a country as well as on individual judgement.

3.3.8 Stakeholder Feedback to the Indicators on Internal Social Performance

Tauni Brooker, Core Ratings (formerly with WBCSD):

“Employee satisfaction (INT 3): The indicator should also cover:

- ◆ Health and safety, as branch robberies are a serious threat to staff
- ◆ Working conditions in call centres”

Christoph Buholzer, ACTARES

“Employee satisfaction (INT 3): Employee satisfaction regarding equal opportunities should be added in the definition.

Senior Management Remuneration (INT 4): Given the excesses in the past years and the advantage of transparency on this subject for all stakeholders, SPI should not stay behind and adopt backward standards but encourage reporting about remuneration of senior management and board members on an individual basis.

Employee Profile (INT 7): Include distribution of part time work per gender and hierarchical level.”

Karin Schumacher, Employee Representation Committee UBS AG:

“We are very happy with the indicators chosen for measuring internal performance.”

Christoph Weber-Berg, Evang.-ref. Landeskirche des Kantons Zürich:

“Internal CSR Policy (INT 1): Since INT 1 doesn't inform about “outputs” it could be helpful if companies added a few examples or described the process they've gone through concerning a particular issue.

Bonuses Fostering Sustainable Success (INT 5): I wouldn't focus on bonuses only. Why not make it: Incentives fostering sustainable success?”

3.4 Performance to Society

Social Aspects of Relations towards Society

All businesses have an impact on their local communities and on society in general. Such impacts of financial products and services are covered in chapters 3.5 to 3.8.

This chapter covers the following indicators proposed by the project group:

- ◆ SOC 1: Charitable Contributions
- ◆ SOC 2: Economic Value Added

Charitable activities cover those activities which a company undertakes for the benefit of projects and / or communities on a local level as well as globally. These activities can be in the form of donations, staff volunteering, in-kind gifts and management costs.

A company also contributes positively to society through the economic value it creates. The 'Value Added' concept is well suited to measure this impact: it is the sum of all economic value that is created in a given period.

3.4.1 SOC 1: Charitable Contributions

What the indicator aims at

This indicator displays, as a percentage of pre-tax profits, the amount a company contributes for the benefit of the society by way of charitable causes.

When evaluating possibilities to measure these contributions the project soon decided to endorse the work of the LBG (London Benchmarking Group – see www.lbg-online.net) Guidelines, where a comprehensive methodology has already been developed and applied. According to the LBG Guidelines not only direct cash support, but also staff time, gifts-in-kind and management costs (all converted into monetary terms) are reported.

The stakeholders consulted expressed interest not only in the financial sums being spent on charitable causes but also in a description of the activities and programmes a company undertakes and how these benefit the local community and / or society as a whole.

Definition and scope of indicator SOC 1

SOC 1

Charitable Contributions

Quantitative; \$

Report on contributions to charitable causes, community investments and commercial sponsorships. Present data covering the following categories:

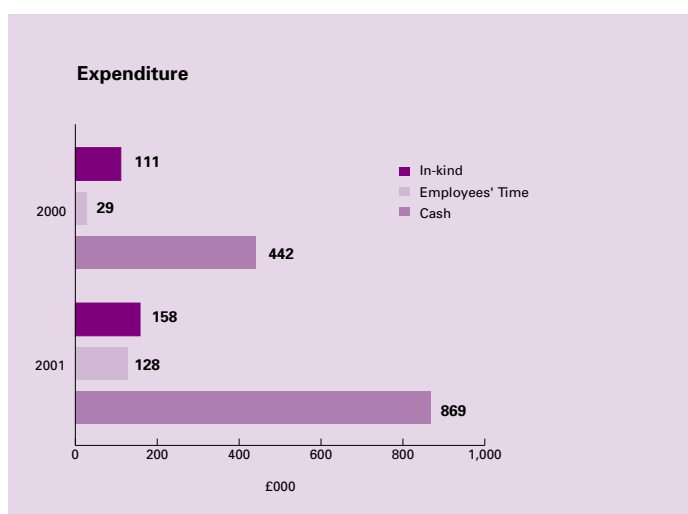
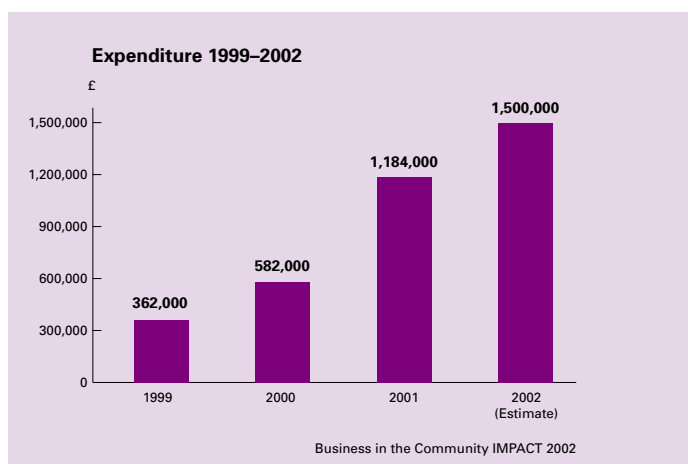
- ◆ cash support
- ◆ staff time
- ◆ gifts in-kind
- ◆ management costs

The LBG (London Benchmarking Group) Guidelines (www.lbg-online.net/) provide a model.

Company examples for indicator SOC 1

Co-operative Insurance: Social Accountability Responsibilities

CIS Social Accountability Report 2001



Deutsche Bank

Spending by foundations and other charitable institutions related to Deutsche Bank Group as well as projected-related spending (in EUR million) in 2001:

Social affairs:

Deutsche Bank Foundation Alfred Herrhausen	
“Helping People to Help Themselves”	4.0
Deutsche Bank Americas Foundation	16.0
Deutsche Bank Citizenship UK	6.1
Alex. Brown & Sons Charitable Foundation	3.0
other project-related spending (only incurred in the Corporate Center)	0.4

Culture:

Cultural Foundation of Deutsche Bank	2.7
other project-related spending (only incurred in the Corporate Center)	0.8

Society and the sciences:

Deutsche Bank Donation Fund in the Donors' association for German Science	5.4
Deutsche Bank Institute for Family-Owned Business at the University of Witten/Herdecke	1.1
Alfred Herrhausen Society for International Dialogue	1.1

Environment:

ISO 14001, UNEP Financial Initiative, Bellagio Forum: Environment and Media	2.3
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Special Projects:

New York donations

As an expression of solidarity with the American people after the terror attacks on September 11, donations totalling \$ 9 million were contributed by our Charity Trading Day in New York on September 25, 2002 and more than \$ 4 million on the occasion of our New York Stock Exchange listing on October 3

Deutsche Bank Africa Foundation, Johannesburg

Provided with \$ 15 million in foundation capital for the objective of promoting educational projects and understanding between people in southern Africa

Initiative Plus

Global program to support the social commitment of our employees, introduced as part of the "International Year of Volunteers" proclaimed by the UN

Academy Opera today

For up-and-coming conductors, dramatic advisors and directors for the opera, started in September 2001, Support for 15 scholarships annually

Zürcher Kantonalbank

Annual Report 2001

	2001	2000
Charitable contributions	CHF 19.4 mio.	CHF 14.2 mio.
Sponsoring of cultural events, sport and health sponsoring, promoting public transport, environmental sponsoring, scientific sponsoring, support for the socially disadvantaged, low-cost rentals.		

Interpretation

This indicator is an input indicator, i.e. it measures what a company contributes in terms of what it puts into community development. The indicator cannot measure the output of these activities, i.e. what has been achieved to benefit the community.

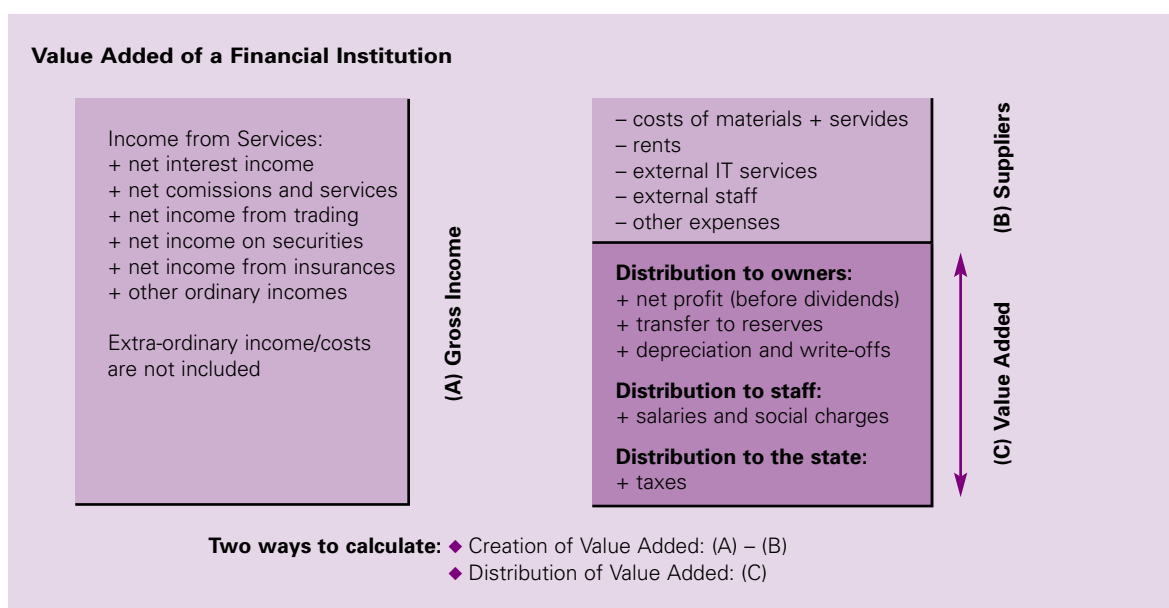
A company might also consider trying to describe or measure the societal impact. An example could be that where staff have volunteered to aid unemployed with job applications, the increase in successful applications could be measured.

Since the project group endorses the LBG Guidelines, it also refers to the final report produced by the London Benchmarking Group for interpretation of this indicators. The Guidelines set out boundaries for what to include within the calculations. Where further comments are required to explain the figures, these should be provided by the institution.

3.4.2 SOC 2: Economic Value Added

What the indicator aims at

A company's economic aim is to provide products and services for its customers and to create economic return for the investment of its owners. The total value created by the company can be called "value added". In the concept of the Eurostat it is defined as the value of the company's income (or turnover), minus the value of services and products purchased.



The "value added" of a company is also its contribution to the national wealth, measured in the gross national product. It encompasses the total economic value created for society by a company and its distribution to the receiving stakeholder groups. The recipients are staff in the form of salaries and social contributions, the state in the form of taxes and the owners (shareholders) of the company in the form of profit, reserves or write-offs.

The value added can be calculated in two ways, which will lead to the same result:

- by deducting all externally purchased goods and services from the total net income,
- by adding the elements of the value added distributed to staff, government and owners.

Definition and scope of indicator SOC 2

SOC 2

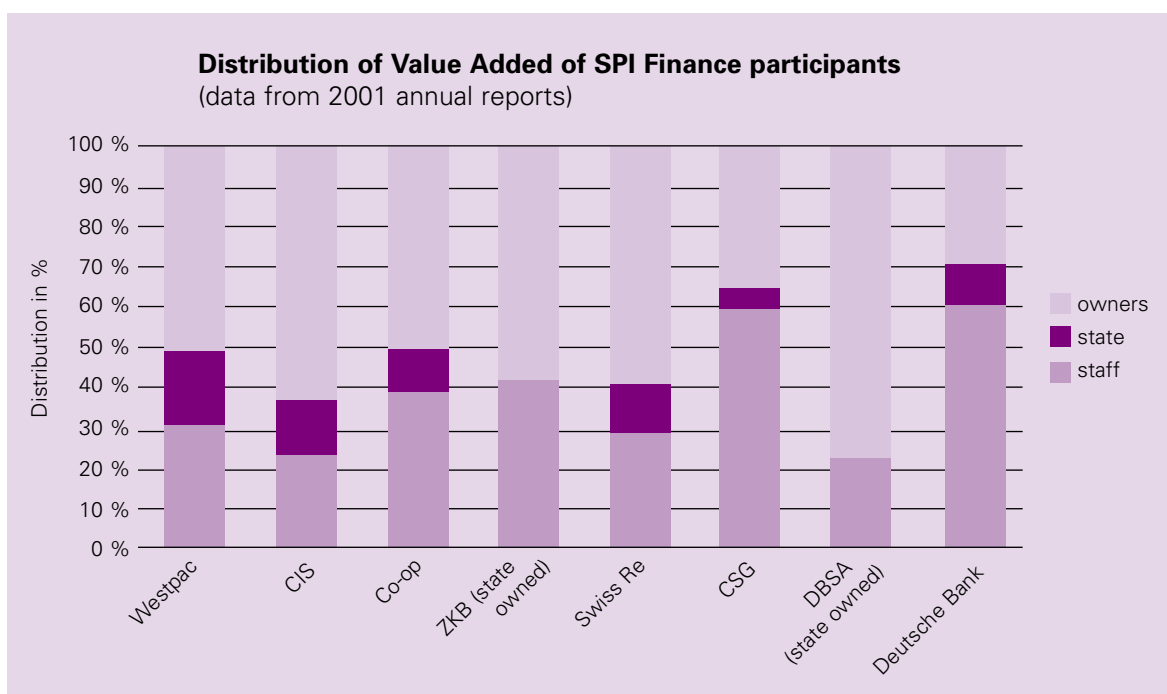
Economic Value Added

Quantitative; \$

'Value added' expresses the economic value created by a company's activities. It consists of gross salaries (including social security payments, etc.), taxes, depreciation and gross profits. It reflects the company's contribution to GNP. Report as total and split to stakeholders.

A template to calculate Economic Value Added can be found at www.spifinance.com

Company examples for indicator SOC 2



Interpretation

As the example from SPI-Finance participants illustrates, the value added indicator allows a comparison of the distribution of the value created ("added") by the companies.

National regulations may influence the sub-division of value added (e.g. whether health care is state-run by general taxes or financed by private insurance systems, which would be included under value added to staff). For financial institutions, particularly insurance companies, the value added is partially dependent on the earnings from, as well depreciations on, the investment portfolio.

However the value added concept shows that even in years of negative profits a company still produces value to its staff in the form of salaries or to society in the form of taxes.

The value added indicator can also be used as part of a cross-over indicator comparing the different dimensions of sustainability. For example, when related to the total greenhouse gas emissions of a company, the eco-efficiency can be measured because the environmental impact (here measured as a contribution to global warming) may be put into relation with the economic value created.

3.4.3 Stakeholder Feedback to the Indicators on Performance towards Society

Christoph Buholzer, ACTARES:

“Charitable Contributions (SOC 1): Include contributions to political parties and initiatives.”

Andreas Missbach, Berne Declaration:

“Economic Value Added (SOC 2): In order to give valuable information on multinational financial institutions the partitioning of contributions to owner, state and staff should be given for the main markets and not just an overall figure.”

Mike Tuffrey, The Corporate Citizenship Company:

“On measure SOC 1: Charitable Contributions, I am responding officially on behalf of the LBG and can say we are happy with your treatment of the model and approach. Thank you for including it.

My only comment is on ‘interpretation’, where you correctly make the point about the difference between inputs and outputs. This is correct - but we strongly encourage our member companies to address outputs, as we believe this is the real test of performance. It's difficult of course, but “might also consider trying” is perhaps a little hesitant and could be strengthened! “where possible should also” or something similar?”

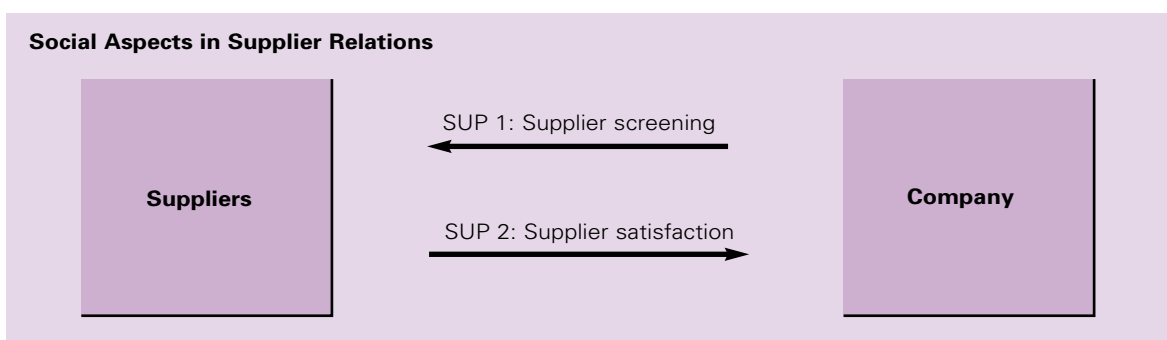
Christoph Weber-Berg, Evang.-ref. Landeskirche des Kantons Zürich:

“Charitable Contributions (SOC 1): I see the problems but I think it's very important not to reduce “performance to society” to financial figures on sports and culture sponsoring or staff volunteering hours. Political activities (contributions to campaigns and parties) would say quite much about a company as well.”

3.5 Suppliers

Social Aspects in Supplier Relations

The social aspects in supplier relations are twofold: The responsibility in screening and selecting the supplier as well as towards the supplier:



The following indicators are proposed by the project group:

- ◆ SUP 1: Screening of Major Suppliers
- ◆ SUP 2: Supplier Satisfaction

3.5.1 SUP 1: Screening of Major Suppliers

What the indicator aims at

This indicator covers the policies and procedures that a financial institution has in place for screening its suppliers. For feasibility reasons the project group proposes that financial institutions concentrate on screening their major suppliers (with regard to contract volumes) only.

Stakeholders consulted expressed the expectation that companies provide information on how they fulfil this responsibility and what criteria are applied.

Definition and scope of indicator SUP 1

SUP 1	Screening of Major Suppliers	Qualitative; Text
Report on policy and procedures to screen suppliers' social performance.		
Important issues are terms of employment, conditions, and health and safety. Focus on major suppliers. Selection of major suppliers may change over time when in- or outsourcing relevant business processes.		

Company examples for indicator SUP 1

Credit Suisse Group

Sustainability Report 2001

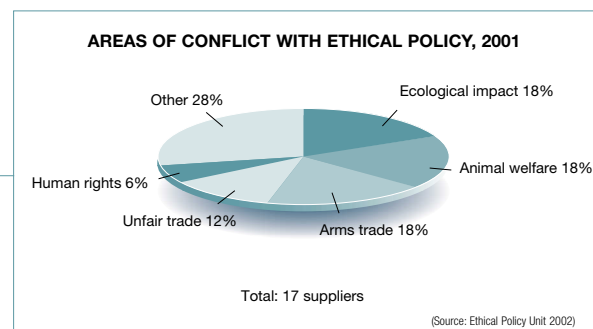
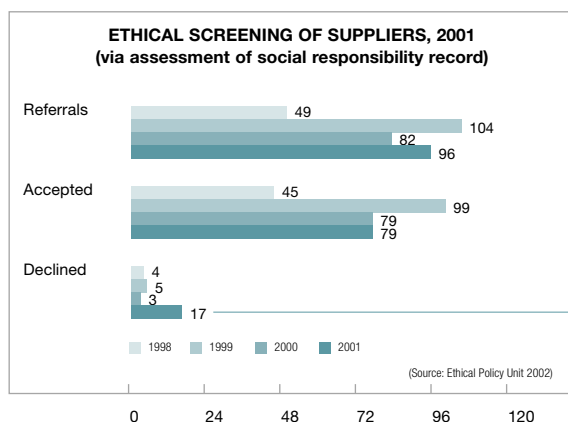
As well as asking for proof of a progressive approach to environmental issues, Credit Suisse Group will in future require its service providers and suppliers to adhere to social guidelines. These guidelines draw on the principles set out in the environmental standard ISO 14001, the social standard SA8000 and the UN Global Compact. Among other things, they call for compliance with environmental legislation, safe handling of dangerous substances and good practice with regard to child labor and trade union freedom. A pilot scheme was launched in the first half of 2002.

The Co-operative Bank

The Partnership Report 2001

The total value of contracts screened on the basis of ethics was £11.9 million, of which contracts with a value of £400,000 were considered unacceptable. During 2001, the bank sought to develop relationships with a number of 'marketing partners', with the intention that these partners would promote their products to the bank's personal customers. This involved the bank in considering a wider range of corporate activities than it would normally evaluate regarding direct suppliers. The bank was unable to promote the products of fifteen potential partners.

SA8000 The bank has previously reported that it was considering enhancing current screening procedures to give added consideration to the ethical profile of a product or service. During the year, the bank initiated social assessments of three potential suppliers against the SA8000 standard. SA8000 is built on the core conventions of the International Labour Organisation, the Universal Declaration of Human Rights and the UN Convention on the Rights of the Child. The social assessment included manufacturers of workwear for staff uniforms in eastern Europe and a supplier of Information Technology services in India. The assessments were carried out by an independent third party, SGS-ICS, employing local auditors. The audits concluded that the operations complied well with the clauses and intent of SA8000 and relevant local legislation. A small number of minor issues were noted which were communicated to the various management teams.



Interpretation

Care should be taken when interpreting this data, bearing in mind that this indicator does not necessarily provide information regarding:

- ◆ to what standard or criteria suppliers are being screened,
- ◆ what the findings of the screening are,
- ◆ whether the financial institution has asked for corrective measures to be taken by the supplier.

Especially large globally active financial institutions are engaged with a large number of suppliers so that such detailed information is difficult to provide.

However, as the stakeholders providing input to SPI expressed the expectation for this type of information, the results could be illustrated as in the example provided by The Co-operative Bank.

3.5.2 SUP 2: Supplier Satisfaction

What the indicator aims at

This indicator aims at transparency on the extent to which a company is fulfilling its social responsibility towards its suppliers. It makes sense for a company to determine which issues are important to its suppliers and then measure their satisfaction levels in terms of how these issues are being met.

Definition and scope of indicator SUP 2

SUP 2

Supplier Satisfaction

Qualitative; Text

Report on supplier satisfaction with e. g., prompt payment, prices and treatment.

Suppliers should be asked which issues are core to them. The company should explain measures to ensure that suppliers can respond openly, e.g., with anonymous replies or third party support.

Survey data may also be reported quantitatively.

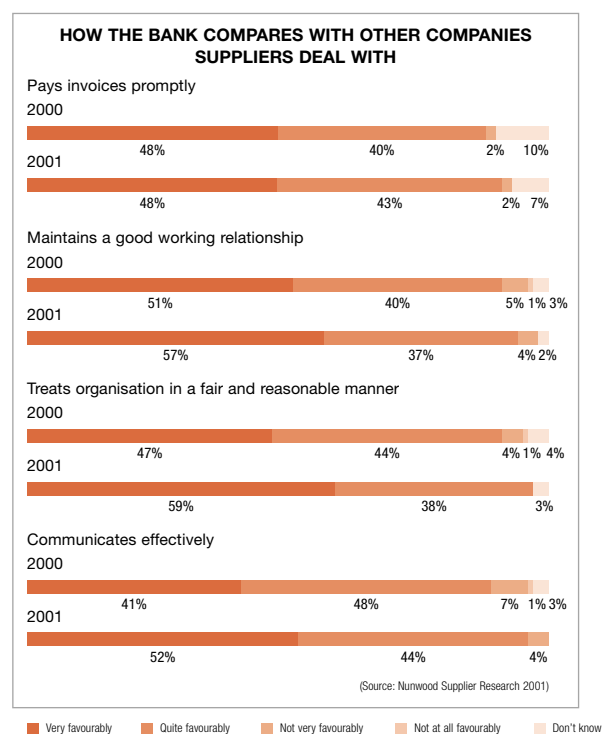
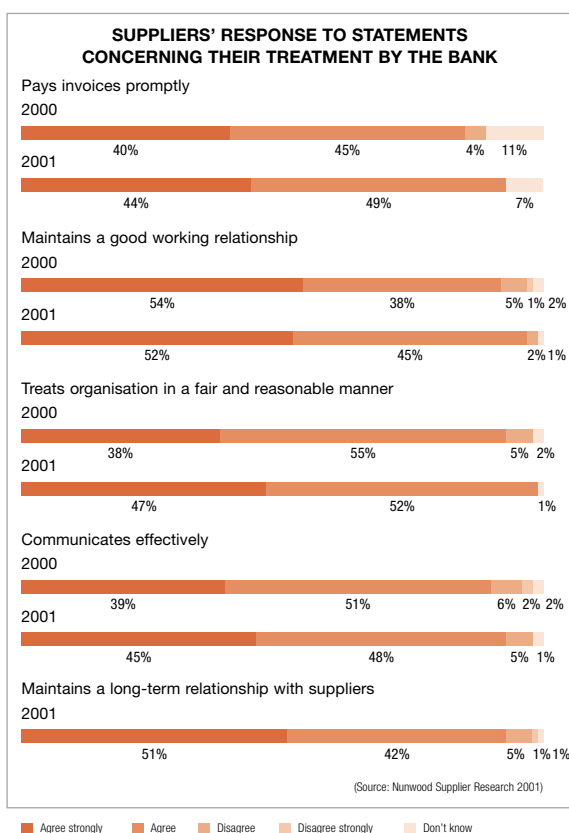
Company example for indicator SUP 2

The Co-operative Bank

The Partnership Report 2001

Benefits and Satisfaction

According to suppliers, the main benefits of their relationship with the bank are derived from: receiving income (35 %); obtaining regular work (30 %); having a prestigious client (29 %); and working with a credible client (24 %). Overall levels of satisfaction with the bank remain high, with 92 % of suppliers being very or quite satisfied. The main reasons for satisfaction are: no problems experienced (26 %); good personal relations with bank contact (25 %); sound policies operated by bank (19 %); and good working relationship or long term relationship (16 %). The bank reports again this year on the four priority issues of prompt payment, good relationship, effective communication and fair treatment. In all four areas, the bank's performance has improved on the high standards reported in 2000. In addition, the bank's performance in all four areas is rated more favourably than other companies, with performance in all aspects improving on performance in 2000.



Interpretation

While all participants agreed that supplier satisfaction is an important social responsibility issue it has to be mentioned that large globally active financial institutions with subsidiaries in many countries will have problems providing such data as in this example for all markets on a regular basis.

They may choose to focus on major suppliers or on main markets only, or to take turns in the supplier markets surveyed over time.

As with all survey data, and in particular with suppliers who may fear losing work contracts, it is important to bear in mind that high standards of survey techniques have to be met when collecting or interpreting the results, and that anonymity is preserved.

The indicator does not cover information on the measures the company takes when a supplier dissatisfaction occurs. However stakeholders consulted expressed the expectation for information on the corrective action taken.

3.5.3 Stakeholder Feedback to the Supply Chain Indicators

Christoph Weber-Berg, Evang.-ref. Landeskirche des Kantons Zürich:

“It’s good you put in SUP 2.”

3.6 Retail Banking

Social Aspects of Retail Banking

In many parts of the world, banking services are becoming increasingly important for citizens in order to live a life integrated in society: to receive wages, to get a phone number and a credit card. In most countries, it has almost become a basic need to have a private bank account if a person wants to participate in modern life. Banking services may equally be important for companies, be it just for allowing payments from clients to the company and from the company to staff and to suppliers. Access to retail banking services is therefore an important element of basic financial infrastructure for both individuals and companies.

The following indicators are proposed by the project group:

- ◆ RB 1: Retail Banking Policy (socially relevant elements)
- ◆ RB 2: Lending Profile
- ◆ RB 3: Lending with High Social Benefit

While the RB 1 indicator covers all financial products and services offered in Retail Banking, the indicators RB 2 and 3 focus on the lending activities which have a specific social relevance.

3.6.1 RB 1: Retail Banking Policy (socially relevant elements)

What the indicator aims at

In its retail banking policy, a company describes which social values the company follows when deciding and developing its retail banking services. Such a policy may contain basic long-term elements, such as non-discrimination of private clients, as well as current social issues which may develop in a country or area, such as the distribution of branches and cash machines in rural areas. Values and issues of such a policy may cover regional development, social inclusion, marketing practices, promotion of minorities, etc.

The policy will often reflect the sensitive issues of the areas the company is active in. The policy then allows external stakeholders to understand to what extent the company management has recognised areas of social responsibility within retail banking.

Definition and scope of indicator RB 1

RB 1	Retail Banking Policy (socially relevant elements)	Qualitative; Text
Describe the social criteria applied by the reporting organisation in Retail Banking.		
Criteria can cover products to foster social capital as well as the handling of sensitive issues in the business area. Examples for sensitive issues in retail banking may be: access to financial services (social exclusion), marketing practices, lending to companies / projects with considerable critical social impact (as defined by the financial institution). The company may give examples on how the policy is implemented regarding sensitive issues.		

Company examples for indicator RB 1

Credit Suisse Group

Sustainability Report 2001

Extracts from mission statement Consumer Credits:

- ◆ We achieve our profits through market-oriented products and optimal structures, not through inflated interest rates.
- ◆ We are aware of our social responsibility when approving credit. [...] It is part of our due diligence to avoid over-indebtedness.
- ◆ We practice a socially responsible encashment. In the event of blameless welfare cases we lend a hand to find an amicable solution.
- ◆ We demand from our staff entrepreneurial and socially responsible thinking and action.

Rabobank Group

Annual Report 2001

Lending is more than simply granting financially justifiable loans. It is also a matter of dealing with dilemmas and having the courage to take responsibility. This implies unambiguous criteria and transparent actions. Several steps were taken in this respect in 2001.

In 2001 the Rabobank Group ensured that a number of themes on corporate social responsibility were embedded in the process of assessing applications for credit. These themes and supplementary criteria are now being added to the existing sources of information and introduced in the managerial tools and assessment instruments for loans.

Corporate social responsibility criteria are part of the application assessment

There are several aspects that play a role when local consultants assess applications for credit: the entrepreneur's merits, for instance, his business plan, the market, etc. To be able to make an integral assessment of the opportunities and threats involved, themes in the field of the environment and society must from now on also become an integrated part of the lending process. Rabobank business consultants and credit assessors will increasingly take these aspects into consideration when making decisions regarding applications for credit. To this end, in 2001 the Rabobank adjusted its existing financing policy and a number of tools, such as the Business Financing Manual and the branch information system BIR. These themes and issues, in which moral dilemmas play a role, are also dealt with in the credit reports. Local Rabobanks and other entities of the Rabobank Group finding it difficult to make a final decision in connection with ethical dilemmas can present their problem to the Rabobank Nederland Ethics Committee.

Ethics Committee

The Rabobank Nederland Ethics Committee, chaired by a member of the Executive Board, is first and foremost an advisory body that deals with ethical issues. When requested to do so by managers of the Rabobank Group the committee gives its judgement or second opinion on specific cases. It also advises the Executive Board on the position to take regarding broadly-based social issues.

In 2001 the committee dealt inter alia with practical cases relating to the financing of brothels after the abolition of the brothel prohibition, financing vendors of hallucinogenic toadstools, connections with companies in which child labour is at issue, and the acceptance of customers with a criminal background.

Knowledge of our customers

On 11 September 2001 the world was shaken by the terrorist actions in New York and Washington. During the weeks that followed it was often asked how it was possible that such actions could be financed. In this context it has yet again been made quite clear that it is important for any bank to have a good knowledge of its clients.

The Rabobank has the basic assumption that applications for credit are only agreed upon if there is sufficient information available to be able to form a reliable opinion on the applicant. No isolated projects or properties are financed without the bank knowing the customer behind them. Checks are also carried out as to whether it is in the customer's interest to be granted the loan in question.

Further areas covered: **Code of Conduct on Human Rights; Code of Conduct on Genetic Modification; Code of Conduct for the Palm Oil Industry; Courses on Sustainable Banking; Standard loans abroad**

Interpretation

The policy indicator explains the normative basis of retail banking. It represents and creates a level of expectation of the company's behaviour and performance. A policy is usually a text of one or a few pages. Keywords and formulations are to be considered when interpreting such a policy. The policy does not include the actual performance; this is to be reported separately. Often there will be specific retail banking policies for different regions or countries.

The full retail banking policy usually contains confidential information on the business development. The information on this indicator will therefore contain only the non-confidential and socially relevant parts of that policy.

3.6.2 RB 2: Lending Profile

What the indicator aims at

This indicator provides basic information on the institution's business structure and balance sheet. The indicator covers the social aspects of the institution's lending business. It provides transparency for various stakeholder groups – be it e.g. shareholders concerned with the risk profile, consumer and environmental organisations interested in socially relevant business types and sectors, etc.

In many countries access to financial services is a basic issue. Depending on the socially relevant issues prevalent in a country or area, specific structural data may be included in the profile.

Small and medium sized enterprises (SMEs) are often considered the backbone of an economy. At the same time, SMEs are the most vulnerable to changes in credit availability. Therefore lending to SMEs should be specifically reported.

For sensitive issues, the institution may add comments on how the policy is implemented.

Definition and scope of indicator RB 2

RB 2

Lending Profile

Quantitative; \$ and %

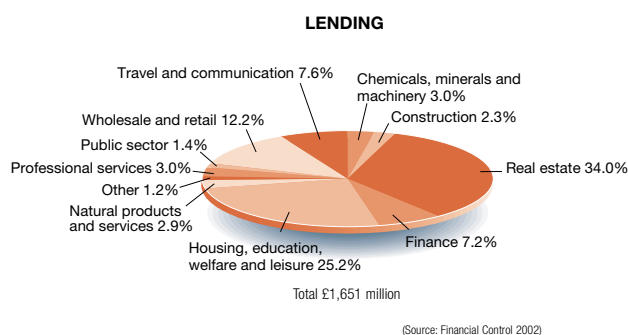
Report on repartition of lending business, including industrial sectors and company sizes, with specific reference to lending related to small and medium sized enterprises.

Company examples for indicator RB 2

The Co-operative Bank

The Partnership Report 2001

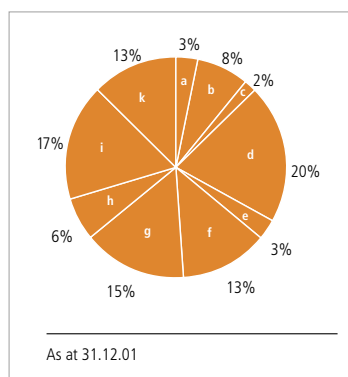
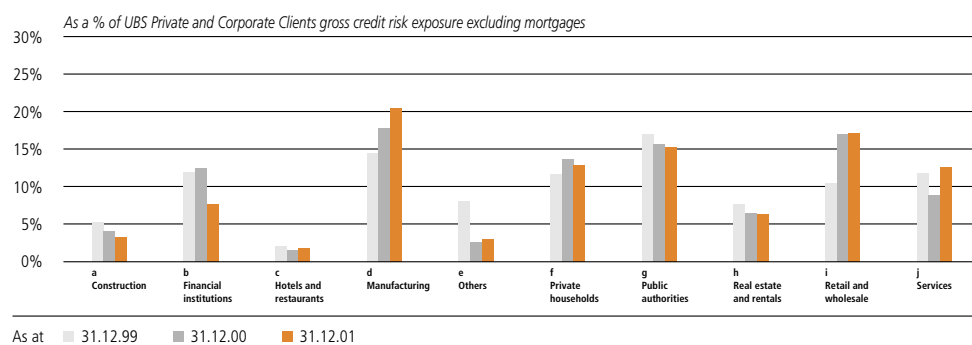
RETAIL CORPORATE AND BUSINESS CUSTOMER PROFILE – BY INDUSTRY CLASSIFICATION (December 2001)



UBS

UBS Handbook 2001 / 2002

UBS Switzerland Private and Corporate Clients Gross credit risk exposure (excluding mortgages) by industry



Interpretation

The indicator provides information on the basic business structure of an institution. Many companies have started to publish such information in recent years, for legal and other reasons.

Access issues may be expressed with data on regional structure, household size, income strata, ethnic background for private customers and mortgages. For company clients, industrial branch, size and regional structure of company clients could be relevant criteria. Other access issues could be possibilities for the rural population, for handicapped persons, for persons of different mother tongues, for low-income persons (e.g. in the form of minimum capital needs for opening an account), etc.

When interpreting data of an institution which offers retail services in various areas of the world, one should consider the scope of the data.

Sector data will never be able to clarify all possible questions since many companies produce in, and for, a wide variety of industrial sectors.

The definition of 'SMEs' varies between jurisdictions, often encompassing companies from between 0 and 10 staff but up to between 250 and 1000 staff.

3.6.3 RB 3: Lending with High Social Benefit

What the indicator aims at

With this indicator, the company may report on innovative or flexible lending practices to address the credit needs of areas and individuals of high social needs. This may cover either existing products or recent innovations. The company should mention which types of lending products and services it understands to be creating special social benefits.

Definition and scope of indicator RB 3

RB 3

Lending with High Social Benefit

Quantitative; \$ and %

Report on provision of tailored and innovative products and services applying special ethical / sustainability criteria, including provision of finance to deprived communities and applied interest rate (in relation to base rate). Report on total amount and percentage of total lending.

Company examples for indicator RB 3

Westpac

Social Impact Report , July 2002

Business lending with a high social benefit

Small and medium size businesses (SMEs) are a fundamental part of the Australian business landscape, as major employers, and many of their activities, which we assist in funding, have social benefits. Currently **12.6 per cent of total business lending assists small business in Australia**. Currently we do not classify or monitor our lending activity by the degree of social benefit attaching to each loan. Various business lending activities, however, do have high social benefit.

Westpac's lending policies have resulted in a high social benefit for **women in business** who were previously disadvantaged. In order to redress this imbalance of the past, Westpac has made sure this group benefits from its social benefit lending policy. We consider there is more work to be done here given the proportion of women starting their own business and those who share the responsibility of running a business.

Zürcher Kantonalbank

Annual Report 2001

	2001	2000
Lending with high social benefit: ◆ financing low-cost residential building (according to Swiss legislation on promoting home ownership; only second mortgages guaranteed by the Swiss Federation), ◆ 3-phase mortgages (for young families), ◆ mini mortgages (private and SMEs), ◆ further education loans	CHF 6,399 mio.	CHF 5,683 mio.

Interpretation

There is no generic definition of a "financial product with a high social benefit". What creates "high social benefit" will depend on the situation within a particular national or regional society. Therefore, the type of products and services to be included in this indicator will not only vary between companies (as they define their policies) but also between areas, countries, societies. In the USA, e.g., the Community Reinvestment Act (CRA) demands financial institutions to maintain a certain level of lending for economically deprived communities / areas, if they wish to keep full business autonomy. These lendings could be seen as having a high social benefit. Due to these differences, this indicator will therefore not allow for a straightforward comparison between institutions for the time being.

Depending on the situation in the countries of operation, such lending with high social benefit may include lending to:

- ◆ recipients in economically deprived areas
- ◆ financially support education, mortgages to young families or other basic developments
- ◆ women-owned businesses
- ◆ businesses owned by people of ethnic minority status
- ◆ start-up companies
- ◆ NGOs with a strong social mission

etc.

Lending to persons or into areas in need only creates high social benefit if it is made at relatively reasonable interest rates. For that reason the indicator asks for both the amount as well as the interest rate applied.

In most companies, such products and services will make up for only a small fraction of total business. Nevertheless, these products and services may signal a development which is more important than just the actual monetary value.

The amount and types of lending figuring in this indicator will depend, next to the institution's policy, on the type of business the institution offers.

One may argue that most lending activities by their very nature have a social value – if only because they support and strengthen economic activity. However, in this indicator, an institution should mention only those lendings which create an additional especially high social benefit.

3.6.4 Stakeholder Feedback to the Indicators on Retail Banking

Tauni Brooker, Core Ratings (formerly with WBCSD):

“Retail banking: The indicators should also cover:

- ◆ Retail investments – e.g. ethical pensions and unit trusts
- ◆ Mis-selling of mortgages or pensions (i.e. training of agents, and the provision of adequate information on which potential customers can base their decisions)

Lending with high social benefit (RB 3): Microfinance / credit schemes are now also receiving significant attention from large banks and should be mentioned as having high social benefit.”

Bernd Balkenhol, International Labour Organization:

“Retail Banking Policy (RB 1): we need to define measures for “access to financial services”.

Company example Credit Suisse: reference to “trying to avoid over-indebtedness” sounds good, but what does the company concretely do?

Company example for Lending Profile (RB 2) Coop Bank: static distribution of portfolio by customers not meaningful in this context; it would be more interesting to show change over time in one bank, or comparison against a sectoral average.

Lending with high social benefit (RB 3) interpretation 3rd paragraph: “reasonable interest rates” is a loose concept, and not necessarily a sufficient indicator for accessibility.”

Ivo Knoepfel, OnValues (formerly with Dow Jones Sustainability Group Index / SAM):

“In my opinion the whole area of Microfinance is so important for the world's sustainable development that it deserves a special mention in the form of a separate indicator. I think an indicator addressing the more than 2 billion people without any access to financial services is an important pointer to the future.”

Andreas Missbach, Berne Declaration:

“Lending Profile (RB 2): In order to give valuable information on multinational financial institutions the lending profile should be given for the main markets and not just an overall figure.

We miss a quantitative indicator on lending to business areas, where it is likely that human rights are negatively affected such as mining, fossil fuel exploration and transportation, forest products / forest conversion, large dams and large infrastructure / industrial projects.”

3.7 Investment Banking

Social Aspects of Investment Banking

The term “Investment Banking” is not uniformly defined in the practice of financial institutions. Here, the project group proposes to include banking services in the field of trade finance, project finance, corporate finance and trading, while any consulting activities on investment decisions of private or institutional investors are handled in the next section 3.8 on Asset Management.

The social aspects of investment banking services are linked to:

- ◆ the internal process of managing social issues in investment banking decisions
- ◆ the project or company invested in
- ◆ the institution receiving or handling the investment
- ◆ the good governance in handling the transaction

Typical issues in large industrial or infrastructure projects are social consequences in developing countries such as resettlements or the handling of human rights issues. Other issues raised in this context are the handling of money laundering, bribery and para-governmental funds.

The access of developing countries to finance, together with the handling of over-indebted countries, are also issues of social concern. With corporate finance services the issues raised are social consequences of mergers and acquisitions.

With research and trading the social issues are on the one hand conflicts of interest and insider trading, on the other hand in how far social (and environmental) criteria such as breaches of human rights are included in recommendations and decisions.

The following indicators are proposed by the project group:

- ◆ IB 1: Investment Banking Policy (socially relevant elements)
- ◆ IB 2: Customer Profile: Global Transaction Profile
- ◆ IB 3: Transactions with high social benefit

3.7.1 IB 1: Investment Banking Policy (socially relevant elements)

What the indicator aims at

The indicator aims at describing the social elements of its investment banking decision.

Such a policy may include reference to broadly accepted standards such as World Bank guidelines (e.g. its Operational Manual) or the guidelines of the World Commission on Dams.

Stakeholders consulted expressed the expectation to see whether the company has recognised its areas of social responsibility within investment banking and would compare what policies are in place with regards to standards and other financial institutions and whether companies go beyond the norm.

Definition and scope of indicator IB 1

IB 1	Investment Policy (socially relevant elements)	Qualitative; Text
Describe the social criteria applied by the reporting organisation to its Investment Banking. Criteria can cover products to foster social capital as well as the handling of sensitive issues in the business area. Examples for sensitive issues in investment banking transactions may be: developing countries debt issues, human rights policy when (co-) financing projects with considerable critical social impacts (as defined by the financial institution), bribery and corruption, or corporate governance control of recipients. The company may give examples on how the policy is implemented regarding sensitive issues.		

Company example for indicator IB 1

Westpac

Social Impact Report, July 2002

Institutional banking lending policy

Lending criteria within our institutional bank involves detailed transaction analysis, including assessment of customer, country, industry and facility risk. The quality of management, including perceptions of integrity and ethics, of existing or prospective customers is also taken into consideration in all lending or investment decisions. Lending or investment requests for illegal purposes, as in all areas of the bank, will not be considered.

Additional scrutiny and restrictive approval thresholds apply for funding requests for sensitive transactions such as tax schemes, hostile takeover bids, and involving parties related to a director of the bank or political parties.

Interpretation

The policy indicator explains the normative basis of investment banking management. The results of the policy decisions can be illustrated in the output indicators IB 2 and IB 3.

A policy is usually a text of one or a few pages and also contains confidential information on the business policy. Companies would therefore only be expected to display the socially relevant elements of the policy.

3.7.2 IB 2: Customer Profile: Global Transaction Structure

What the indicator aims at

The indicator aims to give basic information on the investment banking portfolio of the reporting institution. It provides transparency on their exposure in countries of various income. The underlying question is in how far developing countries have access to finance.

The project group proposes to classify the countries according to the World Bank classification of economies, which separates four income groups of economies according to the GNP per capita.

The indicator includes not only transactions but also equity and bond emissions.

Definition and scope of indicator IB 2

IB 2	Customer Profile: Global Transaction Structure	Quantitative; \$ and %
Identify transaction structure according to World Bank classification of economies (4 groups of per-capita GNP). NB: World Bank classification of economies: low income: \$ 755 or less lower middle income: \$ 756 – \$ 2,995 upper middle income: \$ 2,996 – \$9,265 high income: \$ 9,266 or more For more details see: http://www.worldbank.org/data/databytopic/class.htm		

Company examples for indicator IB 2

Development Bank of Southern Africa

Data for period 1/4/00 - 31/3/01 using World Bank classification of countries' economic status

Upper middle income economy mZAR	Lower middle income economy mZAR	Low income economy mZAR
1,258 (55.7%)	276 (12.3%)	722 (32%)

UBS

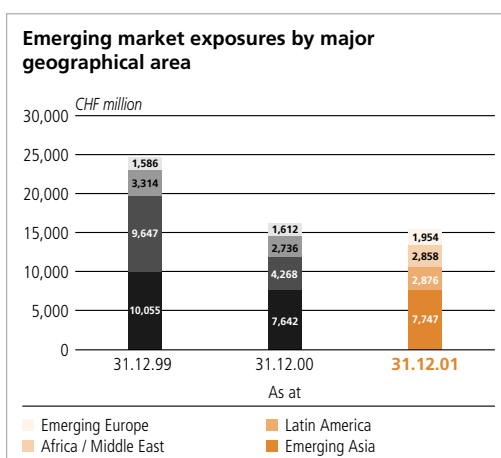
UBS Handbook 2001 / 2002

Country Risk:

At 31 December 2001, CHF 1,127 billion or 98.6% of our country risk exposure was to industrialized countries, where the risk of default is judged to be negligible and, of this, CHF 562 billion, or 50% were intra-Group cross-border money market positions.

The remaining 1.4%, or CHF 15.4 billion, of UBS's country risk exposure is to emerging markets countries. This exposure has continued to decrease during 2001 in line with our policy of limiting exposure to these risks, falling by CHF 823 million between 31 December 2000 and 31 December 2001, a reduction of 5%. As a result of this ongoing reduction, the Argentine default in late 2001 had almost no effect on us.

The table below analyzes the emerging market country exposures by major geographical area and product type at 31 December 2001 compared to 31 December 2000 and 31 December 1999.



Emerging markets exposures by major geographical area and product type

CHF million	Total			Banking products			Traded products ¹			Tradable assets ²		
As at	31.12.01	31.12.00	31.12.99	31.12.01	31.12.00	31.12.99	31.12.01	31.12.00	31.12.99	31.12.01	31.12.00	31.12.99
Emerging Europe	1,954	1,612	1,586	632	809	919	750	395	248	572	408	419
Emerging Asia	7,747	7,642	10,055	4,029	4,053	5,003	1,537	1,355	3,873	2,181	2,234	1,179
Latin America	2,876	4,268	9,647	1,122	2,352	8,169	863	1,025	665	891	891	813
Africa / Middle East	2,858	2,736	3,314	1,432	1,564	2,539	962	669	659	464	503	116
Total	15,435	16,258	24,602	7,215	8,778	16,630	4,112	3,444	5,445	4,108	4,036	2,527

¹ Traded products consist of derivative instruments, reverse repurchase agreements and other collateralized transactions.

² Tradable assets consist of equity and fixed income financial instruments held for trading purposes, which are marked to market on a daily basis.

Interpretation

Not all the examples provided here could be delivered according to the World Bank classification of economies to date. Nevertheless the examples show that global investment banking players have significantly reduced their exposure to emerging markets in recent years. While the overall exposure has been reduced significantly there are still regions where, at the same time, an increase of investments has been notified. This shows that not only economic perspectives, but also political stability and perspectives have an important impact on investments in developing countries and that there is a correlation between political and economic criteria.

What this indicator cannot show is the indirect contribution that investment banks have in Foreign Direct Investments (FDI) in developing countries. According to World Bank statistics, the capital market flow to developing countries in 2001 equalled USD 178 billion, while the FDI amount equalled USD 168 billion. An investment bank may finance the mother company based in an industrialised country which then uses these assets in its responsibility to finance FDIs in developing countries.

3.7.3 IB 3: Transactions with High Social Benefit

What the indicator aims at

In this indicator, the company may report on its investment banking products and services with specific social benefit. This may cover either existing products or recent innovations.

With this indicator investment banks can provide evidence on the results of positive social criteria included in the IB 1: Investment Banking Policy indicator.

This indicator may also include transactions where projects, launched by the IFC or Development Banks with an explicit social target, are co-financed.

Stakeholders consulted expressed the expectation for information on innovation of the company in terms of new products that apply social criteria and how much of total company transactions this entails.

Definition and scope of indicator IB 3

IB 3	Transactions with High Social Benefit	Quantitative; \$ and %
Report on provision of tailored and innovative products and services applying special ethical / sustainability criteria. Include total amount and percentage of total transactions.		

Company examples for indicator IB 3

Development Bank of Southern Africa

Financial year 00/01

Total investments m ZAR	Investments with high social benefit m ZAR	% with high social benefit m ZAR
2,255	1,128	50 %
NB: 50 % of DBSA's investments in FY 00/01 were for internal reticulation of services to households and thus judged to be of high / direct social benefit		

Westpac

Social Impact Report, July 2002

Institutional lending with a high social benefit

Funding proposals from institutional banking customers involving high social benefits are assisted where the viability of the projects can be validated. While there is no standardised definition, initiatives in the following areas have been identified as typically having a higher social benefit:

- ◆ Rural and regional development;
- ◆ Water conservation and rectification projects;
- ◆ Hydro electric and sustainable energy projects;
- ◆ Medical and health initiatives;
- ◆ Waste management and recycling; and
- ◆ Some infrastructure projects.

In total, institutional lending with a high social benefit across these identifiable projects represent approximately **AUD 3.9 billion** of total institutional banking lending.

Interpretation

The project group acknowledges that explicit products or transactions with an explicitly high social benefit are not at the center of daily business routine in all business fields of investment banking. On the other hand in transactions with developing countries social issues have a long tradition within the business process or in discussions with external stakeholders such as NGOs.

The interesting question with this indicator is the criteria a financial institutions applies when defining “high social benefit” (see also the discussion in the retail banking section). This is always the result of a decision on values, where the financial institution has to face the possibility that not all stakeholders will agree with it.

The issue may be solved by a stakeholder dialogue on how to define transactions with “high social benefit”, which would be an important result of publishing data on this indicator.

3.7.4 Stakeholder Feedback to the Indicators on Investment Banking

Tauni Brooker, Core Ratings (formerly with WBCSD):

“Investment banking policy (IB 1): Companies should also be encouraged to report their stance on providing debt and equity capital to contentious sectors such as defence, pornography, and their business with ‘oppressive regimes’.
Transactions with High Social Benefit: (IB 3) Some mention should be made on how professionals are trained to make lending decisions on issues of high social benefit.”

Christoph Buholzer, ACTARES:

“Investment banking policy (IB 1): Policies on the handling of sensitive issues should be included in any case. The text of the definition should be more obligatory.”

Ivo Knoepfel, OnValues (formerly with Dow Jones Sustainability Group Index / SAM):

“Customer Profile (IB 2): I propose that you define the customer profile by income level of clients and not by countries’ income level. The fact that a few ultra-rich clients in Zimbabwe or Ruanda are listed under the “low income economy” indicator does not really make sense.
Transactions with High Social Benefit (IB 3): “Transactions with High social benefit” is a very open concept, leaving so much room to reporters that, unfortunately, I don’t think it will be possible to compare indicators across companies. In future it will be necessary to better specify / list activities and services that fall under this category to avoid watering down the indicator.”

Andreas Missbach, Berne Declaration:

“Investment banking policy (IB 1): Again policies for business areas, where it is likely that human rights are negatively affected such as mining, fossil fuel exploration and transportation, forest products / forest conversion, large dams and large infrastructure / industrial projects should be mentioned.
Customer Profile (IB 2): World bank country categorisation, with only four categories, gives no useful information on the global transaction structure of a financial institution. Information should be given on main markets / transactions.
We miss a quantitative indicator on project finance in business areas, where it is likely that human rights are negatively affected (such as mining, fossil fuel exploration and transportation, forest products / forest conversion, large dams and large infrastructure / industrial projects).”

3.8 Asset Management

Social Aspects of Asset Management

In Asset Management, there are social aspects both in the relations to clients investing, as well as in the asset allocation process. Regarding clients investing, issues of marketing and risk orientation are of core relevance, as well as the possible conflict of interest within the financial institutions (the 'Chinese Wall' between investment and asset management sections). In the asset management process, there are different ways how to integrate social criteria in the allocation procedure.

The following indicators are proposed by the project group:

- ◆ AM 1: Asset Management Policy (socially relevant elements)
- ◆ AM 2: Assets under Management with High Social Benefit
- ◆ AM 3: SRI Oriented Shareholder Activity

3.8.1 AM 1: Asset Management Policy (socially relevant elements)

What the indicator aims at

In its asset management policy, an institution describes which socially relevant criteria it applies in its asset management approaches, and to what extent. Such a policy will mention basic long term issues as well as issues which are of specific interest in the countries of operation. The institution may make reference to external standards it has adopted.

In addition, the indicator may contain information on how sensitive policy issues are being managed in practice.

Definition and scope of indicator AM 1

AM 1	Asset Management Policy (socially relevant elements)	Qualitative; Text
Describe the social criteria applied by the reporting organisation in Asset Management. Criteria can cover products to foster social capital as well as the handling of sensitive issues in the business area. Examples for sensitive issues in asset management may be: responsible marketing (best advice), screening of portfolios against social criteria. The company may give examples on how the policy is implemented regarding sensitive issues.		

Company example for indicator AM 1

UBS

Screening of portfolios against social criteria. The UBS SRI Funds invest globally in shares of companies that achieve outstanding performance in both environmental and financial terms, and that take their social responsibility seriously.

The fund pursues a twin-track strategy when selecting individual companies, investing in both 'Leaders' and 'Innovators'. Leaders are mainly large companies (often blue chips) that achieve the best environmental and/or social performance in their particular industry. Businesses that want to qualify as social leaders must show that they view social activities as a key component of their strategic management. Among other things, the Social Rating determines whether a company has a set of social principles or a social management system.

Area of social criteria:

- ◆ social policy and social management systems
- ◆ internal ethical and social standards or codes
- ◆ activities in developing countries
- ◆ relations with non-governmental organisations
- ◆ relations with employees
- ◆ relations with small shareholders
- ◆ and social contribution to the community.

Interpretation

Where social aspects are explicit elements of an overall asset management policy, the indicator gives information on the whole institution. In situations where specific social aspects are integrated just for specific investment vehicles, the indicator's scope will be limited.

The full asset management policy generally contains confidential information on the current investment policy (e.g. regional, currency and sector division). The information on this indicator will therefore contain only a part of the total policy.

In most countries, important social aspects of asset management are covered by legal regulations, which would not need to be repeated in a policy.

3.8.2 AM 2: Assets under Management with High Social Benefit

What the indicator aims at

In this indicator, the company may report on its asset management applying specific social criteria. The institution should mention which types of investments and investment vehicles are contained in the data provided here.

Definition and scope of indicator AM 2

AM 2	Assets under Management with High Social Benefit	Quantitative; \$ and %
Report on provision of tailored and innovative products and services applying special positive ethical / sustainability criteria. Includes such investments in developing countries. Report on total amount and percentage of total Assets under Management.		

Company examples for indicator AM 2

Rabobank Group

Annual Report 2001

SUSTAINABLE ASSET MANAGEMENT

Robeco Duurzaam Aandelen Fund

Robeco selects companies for its Duurzaam Aandelen Fund on the basis of financial, social, ethical and environmental aspects. The fund suffered a great deal from the unfavourable climate on the stock exchanges in 2001, realising a return of -17.5 %. The performance of this Robeco Fund remained behind that of the Dow Jones Sustainability Index (-13.8 %). **EUR 144 million** was invested in the Robeco Duurzaam Aandelen Fund at the end of 2001.

UBS

730.7 million CHF. (=0.11% of total invested assets within UBS Asset Management (672 billion CHF), see UBS handbook page 34). Represents the UBS SRI funds.

Zürcher Kantonalbank

Annual Report 2001

	2001	2000
Assets under Management with high social benefit	CHF 242 mio./ 0.35 %	CHF 111 mio./ 0.15 %
Assets in the sustainable investments portfolio (this corresponds to the assets under green management set out in the environmental section of the Annual Report)		

Interpretation

The indicator shows to what extent the assets managed by an institution are invested considering – next to the traditional criteria – specific social performance criteria of the institution invested in.

There are three basic approaches of including sustainability – and therefore social – criteria: (1) a negative screening, excluding certain companies which meet (negative) criteria such as tobacco, arms, nuclear or pornographic industry, (2) a positive screening, searching for the best companies regarding a number of criteria and (3) engagement as an active stakeholder. Negative screening is usually easier to do, positive screening produces much better insight into the companies being invested in. For that reason, there are much larger sums being invested according to negative screenings. The investments purely based on negative screening are not included in this indicator, which covers investments based on positive screening only. For engagement see indicator AM 3.

A well known form of investment using specific social criteria are the SRI oriented funds. However, the reporting institution needs to define the types of assets it includes in this data invested according to specific social (or ethical, sustainability) criteria. Such investments may be SRI funds, individual asset management mandates which include specific social criteria or other investments creating specific high social benefit.

Not all investments in developing countries should in themselves be considered to have a high social benefit. However, investments in developing countries for which a high social benefit can be documented, can be included in this indicator.

While the amount specifically invested according to social (or ethical /sustainability) aspects are still small, they have shown a considerable increase over the last years. The relevance of this indicator therefore may well be higher than the quantities suggest.

3.8.3 AM 3: SRI Oriented Shareholder Activity**What the indicator aims at**

This indicator financial institutions to report on their shareholder activities promoting social responsibility. This can be on their own behalf or on behalf of their clients (e. g. using a fund's voting rights at shareholder meetings).

Definition and scope of indicator AM 3

AM 3

SRI Oriented Shareholder Activity

Qualitative; Text

Describe activities with companies invested in, where CSR issues either are raised in communications with board and management or explicitly considered when exercising shareholder rights.

Company example for indicator AM 3

Co-operative Insurance

CIS Social Accountability Report 2001

Social accountability is central to our investment strategy of securing incremental growth in our portfolio over the longer term. Our approach is based on two propositions: that, over the longer term, socially responsible companies will offer superior returns, all other things being equal; and that the proper management of risk incorporates social, ethical, and environmental factors.

It is on this basis that our policyholders have entrusted their savings and investments to us. We are not a passive investor: we actively seek dialogue aimed at securing best practice in the companies in which we invest. This 'best practice' may relate, for example, to environmental issues, the way in which the workforce is treated, how the board of directors is constituted and senior managers remunerated, and the relationships companies have with regimes with poor human rights records.

The approach we have adopted is known as Responsible Shareholding, a form of socially responsible investment (SRI). With the exception of our Environ Unit Trust, which invests on the basis of restrictive criteria, we do not operate a screening process that excludes particular sectors or companies. The aim is to use the Society's shareholdings to achieve a positive impact on the behaviour of the companies in which we invest.

For some time we have been considering how social, ethical and environmental factors can be included in a robust methodology that will allow us to form an overall view of a company's performance relative to the market in general and the economic sector where it operates in particular. We are investigating the use of rating models that would enable us better to assess the total cost, tangible and intangible, of any potential social, ethical or environmental risks and the likely effectiveness of risk management in avoiding or mitigating them. It is our aim to put such a system in place over the coming twelve months.

We have continued to highlight examples of poor corporate governance. We commissioned research that investigated the independence of non-executive directors and found that, in 22% of FTSE-100 companies, the senior 'independent' director could not, in fact, be regarded as being independent*. Furthermore, we discovered that 60% of FTSE-100 companies remuneration committees – which set the level of directors' pay – contain directors who, again, are not independent. This is a breach of the Combined Code of Corporate Governance supported by the London Stock Exchange. Whilst these issues may evoke less general interest than those relating to social or environmental performance, we believe that a company's overall approach to issues, including social and environmental factors, can depend on how it is organised at the most senior level. Such issues, generally known as corporate governance, might include an over-powerful chief executive with a compliant board of directors or the key positions of chief executive and chairman being combined in one person. We shall remain vigilant in this area and continue to engage with our investees to ensure that their policies and behaviour are consistent with the values that we believe our customers demand.

SOCIALLY RESPONSIBLE INVESTMENT IN ACTION

Over the last two years we have increased the size of our responsible shareholding unit considerably. The team consists of five full-time staff who have primary accountability for the implementation of SRI across our entire equity portfolio, and work closely with our corporate governance team that exercises our voting rights at company shareholder meetings. Our co-operative principles stress the importance of

active involvement and we feel it is important that this should apply to our relationships with the companies in which shares are held as much as to other aspects of our business. We always vote, both in the UK and overseas, and we base our support (or otherwise) for each resolution on a careful analysis of the underlying issues, supported, where relevant, by prior discussion with the company's management. Often, we will work with other like-minded institutional investors to engage with companies or, on occasions, combine with others to abstain or vote against a particular motion that we feel is contrary to the aims of responsible shareholding.

* Based on the definition of what constitutes a non-independent director issued jointly by the ABI and National Association of Pension Funds in 1999.

Interpretation

The indicator presents quantitative and qualitative information as to whether and how actively asset managers use the shareholder rights for increased attention on social performance in the companies the institution (fund etc.) is invested in.

Both the criteria and the frequency of socially (ethically, sustainability) oriented shareholder activities are relevant when interpreting this indicator.

Interventions in public meetings or the press and interventions in direct discussions with a company management are two different ways of applying shareholder influence. The former is more easily quantifiable, however the latter is probably no less efficient.

There is a certain overlap between the current discussion on corporate governance issues and this indicator (see e.g. the Co-operative Insurance example above).

3.8.4 Stakeholder Feedback to the Indicators on Asset Management

Tauni Brooker, Core Ratings (formerly with WBCSD):

“Asset management: This section is also supposed to deal with private client business and should therefore refer to companies' anti money laundering policies and systems in accordance with the Wolfsberg principles.

Asset management policy (AM 1): 'Sensitive' issues should also be discussed in relation to the banks policies on asset management and taking equity shares in contentious companies.”

Bernd Balkenhol, International Labour Organization:

“Assets under Management with High Social Benefit (AM 2): we should include here an indicator “assets of SRI variety as a proportion of all assets under management” (at least of those institutions that we cover).”

Christoph Buholzer, ACTARES:

“Asset management policy (AM 1): Policies on the handling of sensitive issues should be included in any case. The text of the definition should be more obligatory. SRI Oriented Shareholder Activity (AM 3): Nice indicator!”

Ivo Knoepfel, OnValues (formerly with Dow Jones Sustainability Group Index / SAM):

“Assets under Management with High Social Benefit (AM 2): AuM with High social benefit” is a very open concept, leaving so much room to reporters that, unfortunately, I don't think it will be possible to compare indicators across companies. In future it will be necessary to better specify / list activities and services that fall under this category to avoid watering down the indicator.”

Andreas Missbach, Berne Declaration:

“Asset Management Policy (AM 1): Policies regarding sensitive issues should be more mandatory. Sensitive issues should be more explicitly defined.”

3.9 Insurance

Social Aspects of Insurance Services

To offer mutual cover and solidarity in cases of need is an old tradition in most societies. The basic service of the insurance industry is a social good in itself, as it helps to share risk and create financial solidarity between individuals, companies and the society at large. This helps to prevent bankruptcies and other financial problems in unexpected situations. Re-insurance companies help to keep the industry stable, even in situations of major damage. Insurance also creates a social good by providing information on the price of risks, even though this is strongly influenced by the legal situation.

A basic aim of the insurance industry is to correctly price each risk it covers. On the one hand it tries to share risks among a large group of clients while on the other hand it is in its own interest to identify sensitive risks within that group and to exclude them from coverage. Insurance as a business needs a balance between solidarity vs. risk orientation. Various stakeholders may have opposing expectations on this balance.

With today's technological possibilities (e.g. genetic testing) traditional risk sharing models are modified which affects particularly insurance types that have a basic social function such as health insurance.

Some insurance types are more socially relevant than others (e.g. old age pensions vs. collision damage waivers). When reporting on the following indicators, a company may choose to select those business areas which have significant social relevance.

The following indicators are proposed by the project group:

- ◆ INS 1: Underwriting Policy (socially relevant elements)
- ◆ INS 2: Customer Profile
- ◆ INS 3: Customer Complaints
- ◆ INS 4: Insurances with High Social Benefit

3.9.1 INS 1: Underwriting Policy (socially relevant elements)

What the indicator aims at

The underwriting policy of an insurance company usually contains numerous strategic and operational guidelines of confidential nature. This indicator thus only asks for the socially relevant elements. These should show the company's social values and how they are implemented.

Reporting may start with describing criteria applied in developing the underwriting policy. It may include socially relevant policy elements, and the relevant changes towards earlier periods. Criteria may cover direct social impact (e.g. on acceptance and exclusion criteria) and / or more general ethical or sustainability criteria (e.g. compliance with human rights and public law).

Reporting may include how the application of the policy is ensured and controlled, especially in relation to sensitive issues.

Definition and scope of indicator INS 1

INS 1	Underwriting Policy (socially relevant elements)	Qualitative; Text
Describe the social criteria applied by the reporting organisation in its underwriting policy. Criteria can cover products to foster social capital as well as the handling of sensitive issues in the business area. Examples of sensitive issues in insurance may be: responsible marketing (best advice), medical screening, genetic testing, transparent commissioning. The company may give examples on how the policy is implemented regarding sensitive issues.		

Company examples for indicator INS 1

Co-operative Insurance

LIFE, CRITICAL ILLNESS AND INCOME REPLACEMENT

1. Each risk proposed shall be assessed as accurately as possible in order to give a decision that is fair both to the applicant and to other policyholders.

It would be unfair to refuse insurance where the risk is insurable or to overcharge a customer. However, it would be unfair to other customers to undercharge a customer: CIS is a co-operative insurer, so any consequent loss would inevitably fall on those other customers. Because most people are in "good" health, it should be expected that the great majority of applications will be accepted on standard terms.

2. Risks shall be assessed as economically as possible. In particular, enquiries shall not be undertaken if the value they are expected to add in the risk assessment will not exceed their expected cost.

This does not need explanation or justification.

3. In judging the "cost" of enquiries, account shall be taken not only of the financial cost but also of any likely social costs.

This is a requirement of the Society's Social Accountability Policy. An example of such social costs might be any discouragement to individuals to assist in valuable research because they fear this might affect their insurability.

4. Where a risk is found to be uninsurable, suitable alternative cover must be offered wherever possible.

This is another requirement of Social Accountability, to minimise social exclusion.

5. The underwriting process shall comply with all relevant legislation, codes of practice and the Society's confidentiality policy, and take appropriate account of its co-operative principles, business objectives and social accountability policy.

Relevant legislation includes the Access to Medical Reports Act (and equivalent legislation in other parts of the UK), the Data Protection Acts and the Disability Discrimination Act. Codes of Practice include the ABI's Code of Practice on Genetic Testing.

6. Underwriting decisions shall be based only on statistics and other guidance on which it is reasonable to rely.

As the Society lacks the resources to research most relevant matters itself, it will be reasonable to rely on the guidance published by the major reinsurance companies and on statistics and guidance published in reputable journals and books. Advice should be obtained from the Society's Principal Medical Officer where necessary.

Swiss Re

[...] Group Non-Life Reinsurance Guidelines

General principles

[...] 2. All business transacted must comply with ethical and moral standards which respect human rights and public law & order. In addition, all reinsurance transactions must comply with the **Group Environmental Management Guideline** [...]

Interpretation

The sensitive issues mentioned in the definition touch on ensuring privacy, equity of access and service quality:

- ◆ Responsible marketing (also called 'best advice') should ensure that clients know in which situations they actually will get cover and that standard situations will not be excluded from cover without the client's consent.
- ◆ Transparent commissioning allows people to select an insurance based on actual cost.
- ◆ Medical screening and genetic testing may be used for screening out persons from receiving standard life and health cover; this is of rising social relevance in many countries (e.g. with the increase of AIDS, or the growing knowledge on genetically induced health problems).
- ◆ There are other possible aspects about equity of access, e. g. when granting household or theft cover depending on where a person lives, about acceptance of persons with low income, etc.

While this policy indicator describes the company's view on issues such as equity of access etc., the client's view will to some extent show in the indicator on complaints (INS 3).

3.9.2 INS 2: Customer Profile

What the indicator aims at

This indicator provides a structural overview of the company's clients, both private and business. It contains basic information on the insurance company which aids in understanding the types of business it offers (which is important even if this is not a key social performance indicator in itself). It allows the comparison of client structure with the society's general structure and to understand to which extent different societal groups are being covered or affected by a company's activities.

Definition and scope of indicator INS 2

INS 2

Customer Profile

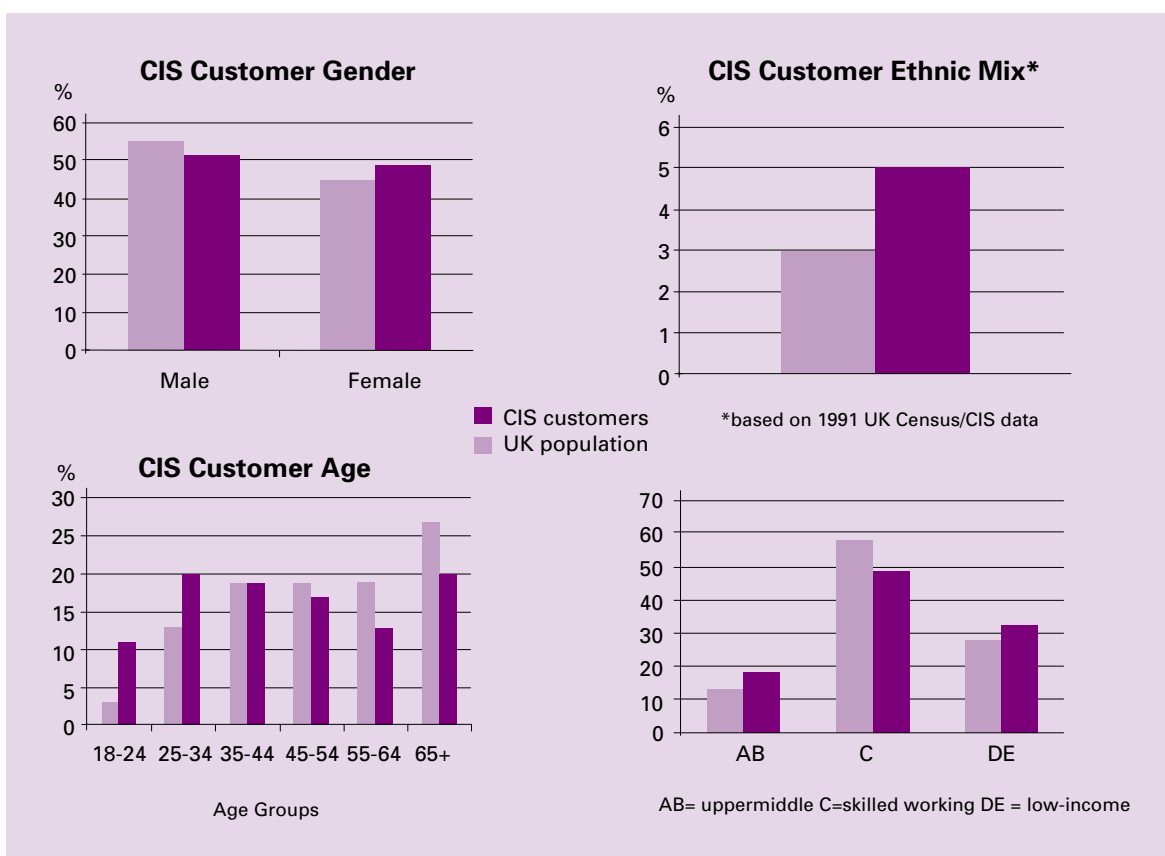
Quantitative; #, \$ and %

Report on the customer base:

- ◆ in private insurance: age profile, male / female profile, ethnicity split (for countries where this issue is of high relevance)
- ◆ in business insurance, including re-insurance: company size profile, geographical split.

Company example for indicator INS 2

Co-operative Insurance



Interpretation

The indicator enables the understanding of an insurance company's market situation. Some of this data will not directly show a social performance; rather, without this information (e.g. on the age distribution of clients) it will be difficult to interpret the information of the other indicators. Some of the data may be relevant, e.g. for discussing equity of access.

3.9.3 INS 3: Customer Complaints

What the indicator aims at

In fulfilling an insurance contract, the client usually pays his regular premium while the insurance company provides cover. If in case of damage there is disagreement between the insurance company and the client about the company's obligations, the client – from his or her perspective – is tied-up, as he has already delivered his obligations in the past. (This is different compared with banking services where clients usually may change their bank if they are not satisfied with its service or performance level.)

Customer complaints cover issues such as marketing practices, clarity of contracts, settlement policies and procedures, privacy issues, technical problems (such as faulty documents) and possibly problems arising from inequities of access to insurance contracts.

Customer complaints are a relevant indicator for direct insurers (not for reinsurers).

Definition and scope of indicator INS 3

INS 3*	Customer Complaints	Quantitative; #
Report on the number of complaints received from customers. Comment on the issues of complaints (e.g., pricing, settling, exclusion).		
* = indicator does not apply for re-insurance		

Company examples for indicator INS 3

Co-operative Insurance

# of complaints on marketing / premiums	# of complaints on settling	# of complaints on other issues
13,612	775	–

Credit Suisse Group

Sustainability Report 2001

Based on an electronic tool within the Quality Management System (ISO 9001 certified) of Winterthur Life & Pensions customer complaints are registered, settled and monitored. After the analysis of the reasons measures for improvement are initiated.

Westpac

Social Impact Report, July 2002

Insurance complaints September – December 2001	
Number of claims	7,964
Number of claims complaints	125
% of claims complaints	1.6%

Interpretation

The indicator informs about the amount of customer complaints. The company may also comment on its complaint settlement procedure and results. There is a large range of possibilities when implementing this indicator.

There is some uncertainty on how to count verbal complaints. Depending on the data collection principles – what is counted as a complaint? – the numbers may change. In general, a complaint will be counted as such as soon as it is handed over to the complaint department.

Complaining habits differ between societies. Complaint settlement differs between companies. When comparing numbers of complaints, one should therefore also compare the complaint qualities and the settlements results.

3.9.4 INS 4: Insurance with High Social Benefit

What the indicator aims at

Basically, insurance companies may insure any risk if an appropriate premium is paid. However, standardised approaches to risk calculations may create distortions in pricing which are relevant only for few people – but crucially. If this leads to a situation where no coverage in a given market is available, it creates a high social benefit if a single insurance company offers such coverage. An example may be a low-sum household insurance (as opposed to standard insurance per size of apartment / house).

One major area of this indicator is providing cover against major risks to low-income people and families and / or providing cover into low-income or ‘deprived’ areas. Such areas may either be low-income areas in affluent countries or low-income countries. There are many official definitions of what is “low-income”, e. g.

- ◆ the US State of California “low income median” (where the median income of a census tract is below 80 % of that of a larger area)
(www.insurance.ca.gov/COIN/Guides.htm#B)
- ◆ the City of Windhoek (Namibia) “low monthly household income”
(www.windhoekcc.org.na/DEPARTMENTS/planning/housing/Allocation_principles.html#top)

Definition and scope of indicator INS 4

INS 4

Insurance with High Social Benefit

Quantitative; \$ and %; text

Report on provision of tailored and innovative products and services applying special ethical / sustainability criteria.

Insurance basically offers social benefit. “High” benefit might be (a) giving basic coverage which (b) is not yet offered by the market at large. Examples are: insurance given to people and SMEs in deprived or otherwise disadvantaged areas (to be defined per area), life and health insurance for disabled, etc. Report on total amounts and percentage of respective total cover.

Company example for indicator INS 4

Rabobank Group / Interpolis

Annual Report 2001

Cooperative micro-insurance works

In association with the Rabobank Foundation, Interpolis developed an insurance concept for persons living in rural areas in developing countries. The concept of cooperative micro-insurance, offering the opportunity to take out insurance against the consequences of death and invalidity, apparently works well. The Yasiru Mutual Benefit Society, established in Sri Lanka in 2000, already had 2,200 members at the end of 2001 and an annual premium of almost 1,000,000 rupee (approximately EUR 12,500). The average premium is 37 rupee per month (approximately EUR 0.46). Considering the success of this concept, initiatives have since been taken to collaborate with three other non-governmental (aid) organisations in Sri Lanka in 2002. Interpolis has meanwhile set up a similar project in the Philippines.

Interpretation

The definition of a high social benefit will be difficult to make – as most insurance contracts offer some social benefit to the client. However, this indicator opens a platform for innovative insurance types which otherwise would probably go unnoticed due to their limited market importance.

As some low-income areas, especially in some countries' urban areas, come in combination with higher criminal rates, cover in such areas may have a statistical tendency to be priced higher. This would of course lower the degree of high social benefit.

There is a wide range of possible insurance types offering high social benefit. Accordingly, this indicator will at the same time show the amount of such insurance premiums the company has signed and the degree of innovation in the company, in terms of innovative products based on special social criteria.

3.9.5 Stakeholder Feedback to the Indicators on Insurance

Tauni Brooker, Core Ratings (formerly with WBCSD):

“Underwriting policy (INS 1): What about policies on commercial insurance and the underwriting of arms, nuclear, tobacco industries etc.? Also, many insurers underwrite and invest in fossil fuel industries yet are restricting insurance cover for flood prone areas. Their policies on global warming should be discussed.”

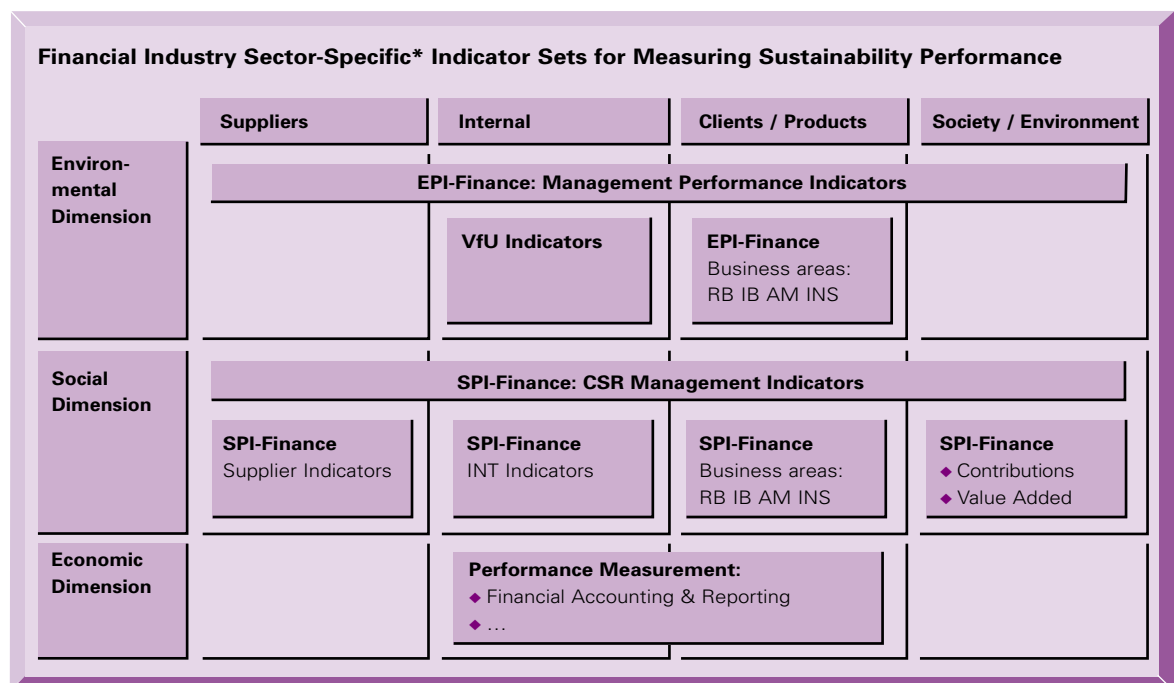
4 Conclusions and Recommendations

4.1 Measuring Sustainability Performance of Financial Institutions

The proposed SPI-Finance 2002 social performance indicators close a gap in the methodology of measuring the sustainability performance of financial institutions. Next to the general GRI Guidelines, the following indicator methodologies have already been specifically designed for financial institutions:

- ◆ the EPI Finance 2000 indicators for Environmental Performance of Financial Institutions
- ◆ the VfU indicators 1996 for in-house ecology

With the addition of SPI-Finance 2002, the financial services sector is now one of the first sectors to have access to a comprehensive indicator set against which it can measure its sustainability performance (see figure below).



*next to generic indicator sets, such as the GRI Guidelines, UNEP Greenhouse Gas Indicators or ISO 14031

4.2 GRI – SPI Comparison of Social Performance Indicators

As indicated in section 2.3., both the SPI-Finance project, as well as the process of the development of the GRI Guidelines 2002, developed social performance indicators in parallel processes. The first are designed for financial institutions, the latter are meant to be used by all sectors. The user may at first sight be concerned by a certain overlap between both indicator sets.

The GRI itself recognises the limits of a one-size-fits-all approach to producing sustainability indicators. For that reason a company that wishes its sustainability report to be qualified as “in accordance” with the 2002 GRI Guidelines should either report on the core indicators in the Guidelines or explain the reason for the omission of each indicator.

The following table shows an analysis of the 2002 GRI Guidelines social indicators SPI-Finance from the perspective of a financial institution. The table is designed to explain the correlation between the SPI and GRI indicator sets. In addition, an assessment of the relevance of each core indicator for the financial industry is given. This assessment may help financial institutions to decide whether to report or not on a specific GRI core indicator.

Issue	Nr	Indicator description	Covered in SPI in () if partially covered	Relevance for FIs	Comment
Labour Practices and Decent Work					
Employment	LA1	Breakdown of workforce , where possible, by region / country, status (employee / non employee), employment type (full time / part time), and by employment contract (indefinite or permanent / fixed term or temporary). Also identify workforce retained in conjunction with other employers (temporary agency workers or workers in co-employment relationships), segmented by region / country.	No	Medium – High	- LA1 covers a variety of issues at the same time and consists of at least seven sub-indicators - For FIs, one of the issues targeted by LA1 is the outsourcing of formerly internal staff (e.g. IT, call centres, facility management) and then becoming a supplier. Here the social issue is whether staff formerly under contract by the company are fairly treated when being transferred to a new employer (e.g. guarantees for the transition period). The exact relation between own employees and outsourced staff (and „normal“ suppliers) does not seem of high enough relevance for the financial industry to qualify as a core indicator. - The aspect of full-time and part-time employment points in a different direction than the other sub-indicators of LA1. While all the other sub-indicators target the difference between employees and non-employees, part-time employment may enable equal opportunity for employees.
	LA2	Net employment creation and average turnover segmented by region / country	INT 2: Employee turnover and job creation, but not by region	Medium – High	
Labour / Management Relations	LA3	Percentage of employees represented by independent trade union organisations or other bona fide employee representatives broken down geographically OR percentage of employees covered by collective bargaining agreements broken down by region / country.	No	Medium	- The right to collective bargaining is a reality in financial services. - The percentage of independent union representation is lower and decreasing in the financial industry - The issue does not seem of high enough relevance for the financial industry to qualify as a quantitative KPI.
	LA4	Policy and procedures involving information, consultation, and negotiation with employees over changes in the reporting organisation's operation (e.g., restructuring).	(INT 1: Internal CSR policy) CSR 6: Stakeholder dialogue INT 3: Employee satisfaction	High	
Health and Safety	LA5	Practices on recording and notification of occupational accidents and diseases , and how they relate to the ILO Code of Practice on Recording and Notification of Occupational Accidents and Diseases.	No	Low, mostly syndromes	Compared to other sectors, the financial industry is a rather safe industry. H+S issues are workplace ergonomics and stress. Whilst FIs have management systems in place to reduce H+S incidents, the issue is by far not as relevant in the whole service industry to qualify as a core indicator.
	LA6	Description of formal joint health and safety committees comprising management and worker representatives and proportion of workforce covered by any such committees.	No	Low	The LA6 indicator seems far away from the reality in FIs.
	LA7	Standard injury, lost day , and absentee rates and number of work-related fatalities (including subcontracted workers).	No	Low – medium	
	LA8	Description of policies or programmes (for the workplace and beyond) on HIV / AIDS .	(CSR 4: Management of sensitive issues)	Medium	In countries where HIV / AIDS is a major issue, the company may wish to report its activities.
Training and Education	LA9	Average hours of training per year per employee by category of employee. (e.g., senior management, middle management, professional, technical, administrative, production, and maintenance)	(INT 3: aspect of employee satisfaction)	High	SPI-Finance has chosen not to measure hours invested in training but rather to include this issue in employee satisfaction. Training hours do not express quality of training. Employees have to be content with training and development schemes offered by the employer.

Issue	Nr	Indicator description	Covered in SPI in () if partially covered	Relevance for FIs	Comment
Diversity and Opportunity	LA 10	Description of equal opportunity policies or programmes, as well as monitoring systems to ensure compliance and results of monitoring . Equal opportunity policies may address workplace harassment and affirmative action relative to historical patterns of discrimination.	INT 1: Internal CSR policy INT 6: Female : Male Salary Ratio INT 7: Employee profile	High	
	LA 11	Composition of senior management and corporate governance bodies (including the board of directors), including female / male ratio and other indicators of diversity as culturally appropriate.	INT 7: Employee profile	High	

Human Rights

Strategy and Management	HR 1	Description of policies, guidelines, corporate structure, and procedures to deal with all aspects of human rights relevant to operations, including monitoring mechanisms and results. State how policies relate to existing international standards such as the Universal Declaration and the Fundamental Human Rights Conventions of the ILO.	CSR 1: CSR policy CSR 2: CSR organisation INT 1: Internal CSR policy	Medium – High	
	HR 2	Evidence of consideration of human rights impacts as part of investment and procurement decisions , including selection of suppliers / contractors .	CSR 2: CSR organisation SUP 1: Screening of major suppliers (CSR 5: Non-Compliance) INT 1: Internal CSR policy RB 1, IB 1, AM 1, INS 1	High	Concerning the financial products and services, the human rights issue in investment decisions may be covered in the respective policy indicator of the business sector (e.g. RB 1, IB 1, AM 1, INS 1).
	HR 3	Description of policies and procedures to evaluate and address human rights performance within the supply chain and contractors , including monitoring systems and results of monitoring. “Human rights performance” refers to the aspects of human rights identified as reporting aspects in the GRI performance indicators.	SUP 1: Screening of major suppliers	Medium	SPI covers the overlap between HR 2 and HR 3 concerning suppliers in SUP 1.
Non-discrimination	HR 4	Description of global policy and procedures / programmes preventing all forms of discrimination in operations, including monitoring systems and results of monitoring.	CSR 1: CSR policy INT 1: Internal CSR policy	High	
Freedom of Association and Collective Bargaining	HR 5	Description of freedom of association policy and extent to which this policy is universally applied independent of local laws, as well as description of procedures / programmes to address this issue.	INT 1: Internal CSR policy and CSR 1: policy	Medium	
Child Labour	HR 6	Description of policy excluding child labour as defined by the ILO Convention 138 and extent to which this policy is visibly stated and applied, as well as description of procedures / programmes to address this issue, including monitoring systems and results of monitoring.	No	Low	Child labour is an issue where cheap and unqualified workforce is sought by employers. This is not the reality for FIs.
Forced and Compulsory Labour	HR 7	Description of policy to prevent forced and compulsory labour and extent to which this policy is visibly stated and applied as well as description of procedures / programmes to address this issue, including monitoring systems and results of monitoring. See ILO Convention No. 29, Article 2.	No	Low	While working hours can be very high in some sectors, the intention of the HR 7 indicator does not cover the reality in the financial industry.

Issue	Nr	Indicator description	Covered in SPI in () if partially covered	Relevance for FIs	Comment
Society					
Community	SO1	Description of policies to manage impacts on communities in areas affected by activities, as well as description of procedures / programmes to address this issue, including monitoring systems and results of monitoring. Include explanation of procedures for identifying and engaging in dialogue with community stakeholders.	(CSR 6: Stakeholder Dialogue)	Medium – high	
Bribery + Corruption	SO2	Description of the policy, procedures / management systems, and compliance mechanisms for organisations and employees addressing bribery and corruption . Include a description of how the organisation meets the requirements of the OECD Convention on Combating Bribery.	CSR 4: Management of sensitive issues	Medium	
Political Contributions	SO3	Description of policy, procedures / management systems, and compliance mechanisms for managing political lobbying and contributions .	CSR 4: Management of sensitive issues	Medium	
Product Responsibility					
Customer Health and Safety	PR1	Description of policy for preserving customer health and safety during use of products and services, and extent to which this policy is visibly stated and applied, as well as description of procedures / programmes to address this issue, including monitoring systems and results of monitoring. Explain rationale for any use of multiple standards in marketing and sales of products.	No	Low	For financial institutions, social aspects of product responsibility are not limited to the three issues of PR 1-3. For issues specific to financial products and services see chapters 3.6 to 3.9.
Product and Services	PR2	Description of policy, procedures / management systems, and compliance mechanisms related to product information and labelling .	(RB 1: Retail Banking Policy, IB 1, AM 1, INS 1) (INS 3: Customer complaints)	Low	The only related issue in this context is fair advertising and marketing. This issue can be covered in the respective policy indicators of the business areas.
Respect for Privacy	PR3	Description of policy, procedures / management systems, and compliance mechanisms for consumer privacy . Identify geographic areas covered by policy.	(INS 3: Customer complaints)	High	For the banking industry, customer privacy is a <i>conditio-sine-qua-non</i> . It does not seem to make sense to report on this issue since an institution not respecting customer privacy would face heavy reputational damage and / or legal implications.

4.3 Recommendations

Financial institutions are invited to use this report when setting up social performance measurement within their institution.

This report and the indicators proposed herewith do not claim to be complete in the sense of content and methodology. The main aim was to present an initial, yet robust, practical proposal.

The indicators presented can be:

- ◆ used by a financial institution as guidance on how to design social performance reporting within their institution. The list of issues and indicators may also help a company to adapt its policies, internal organisation, goals and programmes and the controlling.
- ◆ used by stakeholders to gain information on the social performance of a financial institution.

One reason why this set of indicators was developed was to improve the quality of communication with interested third parties. Interested parties should be able to rely on the indicators developed on the basis of these guidelines. A criterion considered while formulating the indicators was that the published values be auditable and verifiable through third parties. This external verification is already being practised by first reports published by SPI-Finance participants.

The project members look forward to critical comments and suggestions for improvements to the set of indicators presented in this report. They would also welcome the discussion of the proposed indicators between external stakeholders and other financial institutions.

The greater the number of financial institutions which can provide social performance indicators for discussion in the future, the higher the quality of future versions.

Abbreviations

AML	Anti-Money Laundering
CSR	Corporate Social Responsibility
EPI	Environmental Performance Indicators
FDI	Foreign Direct Investment
GNP	Gross National Product
GRI	Global Reporting Initiative
HR	Human Resources
IFC	International Finance Corporation
ILO	International Labour Organization
ISO	International Organization for Standardization
KPI	Key Performance Indicator
MbO	Management by Objectives
MPI	Management Performance Indicator
NGO	Non-Governmental Organisation
OH&S	Occupational Health and Safety
OPI	Operational Performance Indicator
SMEs	Small and Medium Sized Enterprises
SPI	Social Performance Indicators
SRI	Socially Responsible Investment
UNEP	United Nations Environment Programme
WBCSD	World Business Council for Sustainable Development

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Global Reporting Initiative (GRI) 2002: Financial Services Sector Supplement on Social Performance (www.globalreporting.org/GRIGuidelines/Sector/Finance/index.htm or www.spifinance.com/coop.htm)

Global Reporting Initiative (GRI) 2002: Tour Operator's Sector Supplement
(www.globalreporting.org/GRIGuidelines/Sector/Tour/index.htm)

International Finance Corporation: Environmental, Health and Safety Guidelines
(www.ifc.org/enviro/EnvSoc/pollution/guidelines.htm)

ISO 9001 Standard on Quality Management Systems

ISO 14001 Standard on Environmental Management Systems: Specifications with Guidance for Use

ISO 14031 Guidelines on Environmental Performance Evaluation: Practical Tools and Techniques

LBG (London Benchmarking Group) Guidelines (www.lbg-online.net/)

SA 8000 Standard on Social Accountability, Social Accountability International (SAI)

SIGMA (Sustainability Integrated Guidelines for Management) Project: British Standards Institution, Forum for the Future and AccountAbility

UNEP Greenhouse Gas Indicators: UNEP Guidelines for Calculating Greenhouse Gas Emissions for Businesses and Non-Commercial Organisations (www.uneptie.org/energy/act/ef/GHGIn/)

VfU: Association for Environmental Management in Banks, Saving Banks, and Insurance Companies (www.vfu.de)

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World Business Council for Sustainable Development (WBCSD): Guidelines on Corporate Social Responsibility, Geneva 2000 (www.wbcsd.ch/newscenter/reports/2000/csr2000.pdf)

World Commission on Dams: Guidelines (www.dams.org)

Annex: Stakeholders Involved

The following stakeholders provided input either in writing and/or by participating in the stakeholder meetings:

- ◆ ACTARES Actionnariat pour une économie durable, Christoph Buholzer and Sophie de Rivaz
- ◆ Amnesty International UK Business Group, Oliver Dudok van Heel
- ◆ Berne Declaration, Andreas Missbach
- ◆ Business in the Environment, Patrick Mallon
- ◆ Centre for Sustainable Investment, Brian Pearce
- ◆ Centre Info, Philippe Spicher
- ◆ Christoph Weber-Berg, Evangelisch-reformierte Landeskirche des Kantons Zürich
- ◆ David Jackman, Financial Services Authority UK
- ◆ Dow Jones Sustainability Group Index, Ivo Knoepfel
- ◆ Ethibel, Dirk Van Braeckel
- ◆ ethics etc... / Institute of Social and Ethical Accountability, Richard Evans
- ◆ International Finance Corporation, Dan Siddy
- ◆ International Labour Organization, Bernd Balkenhol and Michael Urminsky
- ◆ New Economics Foundation, Ed Mayo
- ◆ Organisation for Economic Co-operation and Development, Kathryn Gordon
- ◆ Staff Commission UBS, Karin Schumacher
- ◆ SustainAbility, Alex Cutler and Judy Kuszewski
- ◆ The Centre for Sustainable Design, Martin Charter
- ◆ The Corporate Citizenship Company, Mike Tuffrey
- ◆ The FORGE Group, UK
- ◆ UK Social Investment Forum, Penny Shepherd
- ◆ UNI-Europa, Harriet Eisner
- ◆ United Nations Environment Programme, Nancy Bennet
- ◆ William Cunningham, Evangelical Lutheran Church in America Board of Pensions
- ◆ World Business Council for Sustainable Development, Tauni Brooker

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