

ABI Position paper on the European
Commission's report "Partnership for
growth and occupation: turning
Europe into a pole of excellence with
regard to corporate social
responsibility"

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Introduction

The Italian Banking Association (ABI) appreciates the European Commission's ongoing commitment for corporate social responsibility, shown with the publication, in March 2006, of the report "Partnership for growth and occupation: turning Europe into a pole of excellence with regard to corporate social responsibility", by giving greater political exposure to CSR (Corporate Social Responsibility), on the subject of the renewed Lisbon strategy for sustainable development, and by confirming the notions of voluntariness of social responsibility and centrality of the role of businesses, which are a country's motors for economic development.

In order to express a system position on the approach to CSR promoted by the European Commission, ABI gathered the different points of view of its Associates actively involved in this issue. Since 2001, an interbank working group on corporate social responsibility is active at associate level.

On the basis of comments received, ABI prepared this Position paper, which was presented to political representatives interested in the subject at national level (Ministry of Economic Development; Ministry of Economy and Finance; Ministry of the Interior; Department of European Policy, Department of Regional Affairs and Local Autonomies, Department of Equal Opportunities, Presidency of the Council of Ministers; Ministry of Social Solidarity; Ministry of Foreign Affairs), and at European level (European Commission, European Parliament, European Council, European Economic and Social Committee).

General observations

The Italian finance industry is interested and active in CSR issues: in recent years, banking businesses, depending on the diverse operational contexts and different company situations, have developed strategies and policies connected to social responsibility, which is intended as procedure of strategic management for businesses that are careful to generate value for the many stakeholders with whom they keep daily relations, following a model that allows bringing together economic character of management and quality of relations between businesses and their contacts.

ABI, through the course of action prepared with banks interested in the subject, and in line with European Commission guidelines, for the most part finds the approach to CSR on developing the following:

a vision of businesses that takes into account careful management of relations with their stakeholders as a fundamental aspect in creating value. Therefore, identification and verification of business activity by companies and markets is increasingly recognized as a necessary condition for income-based and competitive success.

On one side: initiatives organized by careful and sensitive consumers; by groups of citizens and local communities; actions to raise awareness carried out by non-governmental associations (NGOs) and collective associations, for example environmentalist ones; press campaigns, etc.; these are all expressions of the growing attention of "society" as a whole towards businesses and banks, which cause effects able to influence managerial decisions.

On the other side: growing weight taken on by the transnational dimension of businesses (banking ones as well), by prospects that are not only local but linked to global phenomena of their activity, and by the consequences of their action that are not only financial but also social and environmental; greater attention by national and sovereign governments, cultural changes facilitated also by "new" investors (both individual and institutional) entering financial markets (for example retirement funds, with their potential on the side of "socially responsible investments" as well); these are all elements that are bringing a new awareness that is also changing the traditional culture of stock exchange investors, which previously centered around the concept of business value as being purely financial.

This approach calls for extensive strategic knowledge of business management, which is directed also depending on expectations and needs of concerned parties. In this context, pushing to act pursuing "responsible" viewpoints is an answer to what the market and society expect, following methods that cannot be imposed, but can be geared towards constant improvement in order to achieve sustainable middle and long term goals, by creating greater awareness in all parties involved.

ABI favorably welcomed the voluntary approach to CSR emphasized until now by the European Commission: as a matter of fact, CSR originates from a voluntary choice of businesses that, from a self-regulating perspective, select individual CSR strategies and policies; since CSR is a business strategy, it is connected to competitive levers and not to legal requirements. Imposing a solution adjustable to all cases means facing problematic issues connected to both realization and operation.

Nonetheless, ABI believes that a voluntary approach cannot coincide with lack of accountability, because confrontation and quality of relations that banks develop with their

own contacts are the key elements characterizing corporate social responsibility of banks themselves.

This is the more true when we consider that stakeholders not only bring multiple and diverse interests (financial, social, environmental) for businesses, but they also:
contribute to realizing the business mission;
are able to influence company goals with their decisions (on expenses, on investments, on collaboration, on regulations and supervision);
are influenced by company choices and activities.

CSR, as its own designation implies, originates from businesses being free to make strategic choices, in the scope of a banking business vision made up of a constellation of different interests to manage and harmonize; in this context it is important to clarify reference areas of the word "social", to be included in the definition, and to interpret in the term's broader sense, which refers to the commitment that banks voluntarily decide to take on, by responsibly managing activities performed towards stakeholders and towards society as a whole, not only towards a single dimension and/or a single stakeholder. Social responsibility is characterized by the balance between legitimate interests of different contacts, which is integrated at company processes level.

Furthermore, the Italian banking industry has a long history of dialogue and confrontation, with shareholders, as well as with a number of qualified stakeholders such as clients, employees, reference territory, institutions, and, more recently, civil society and no-profit organizations, environmentalist organizations and suppliers.

In this scenario, the European Commission's task, and the growing commitment of the Enterprise and Industry DG in promoting CSR, can contribute to mainstreaming the definition of social responsibility multistakeholders, where businesses become increasingly more careful of the impact that their activity causes on society and the environment, and where stakeholders progressively take on the conscious and responsible role of operators who promote change.

ABI shares the vision of the European Commission to entrust businesses with a leading role in contributing, by promoting CSR, to Europe's sustainable development. Besides, social responsibility can add to developing and integrating the Italian banking industry in Europe, and this aspect of activity can help to fully seize opportunities for development and activity on European and international markets.

ABI shares the European Commission's approach to not consider CSR as "the remedy to all evils"; the commitment of businesses to become more socially responsible, and of all parties involved to support businesses in this path, cannot substitute individual specific competences, and this includes public institutions.

Possible applications of CSR to banking activities

Corporate social responsibility is of particular relevance to banks, since they are motors for economy, main characters in the social and economic development of the areas where they operate, and “crossover” companies to all others.

As a matter of fact, banks interact with CSR issues as investors, since they supply businesses and families with necessary capitals, and they can ensure that the existing capital flow will be directed as a priority towards sustainable business development projects, or that funding will increment the degree of sustainability and/or eco-friendliness of businesses, and of the economic system as a whole; at the same time, banks are business backers (and evaluators), since they supply loans and assess risks and yield of the companies they support and their projects; banks also supply innovative products and services, for example when developing customized financial products aimed at encouraging sustainability (for example when adopting eco-efficient and/or energy-saving technologies, or in financial inclusion projects using customized tools and methods); banks are also active sustainability parties, as “consumers” of environmental resources and supporters of reducing direct social and environmental impacts involving their contacts and vice versa; finally, banks manage savings, committing to correctly inform savers on what concerns shares on which to invest, consistently with the portfolios they hold, and with their “risk-yield” profiles.

With regard to this, let’s think, for example, about developing socially responsible investments, which enhance additional *assets* that determine total value of businesses, and allow savers and investors to direct their savings towards businesses oriented to responsible behaviors. Managing socially responsible collective investment funds is at the attention of many Italian banks that are increasingly developing specific savings management products. In June 2006 the number of socially responsible funds (SRI) commercialized in Europe kept increasing, in the same way that did total assets managed through these products. In the last 12 months, the growth of commercialized SRI funds reached approximately 3%, for a total of 388 operative SRI funds; managed assets amounted to 34 billion Euros (+41% compared with the year 2005). Italian asset managers administer approximately 2.58 billion Euros allocated over 27 SRI funds; their quota therefore amounts to 7.58% of total European SRI funds (source: SRI research on surplus “Green social and ethical funds in Europe”, September 2006).

Many banks have also been included in the main ethical indexes (Dow Jones Sustainability Index; Domini 400 Social Index; FTSE4Good; Ethibel Sustainability Index; Ethical Index), which are set apart for their criteria in selecting which shares to comprise. The selection takes into account behaviors oriented to corporate social responsibility, besides financial performance; in addition, special organizations perform inspections of environmental and social variables. These indexes represent a significant reference point to fund operators, both for those replicating the index itself, than for those who use the index as benchmark.

Additional observations on different possibilities of applying CSR issues are connected to all the activities aimed at ensuring increasing transparency in relations with stakeholders, in self-regulating initiatives geared to simplifying things, in product information and support, in establishing partnerships to promote innovation, and in financial education.

Furthermore, banks treat and handle information in a context of asymmetrical information, and while founding their activity on trust and care of relations with various concerned parties; these factors could find efficient applications within responsible business management.

- **Accountability**

ABI considers essential to promote a culture of accountability that is more aware; on one side, to render bank communication more and more transparent, and on the other side to ensure that assessments by citizens and markets become increasingly more conscious and responsible. It is in this context that bank and business initiatives develop, geared towards giving an account of the total value generated by their activity, and confirming consistency between affirmed values and goals, tasks taken on for their own stakeholders (described and "mapped" in detail) and behaviors acted upon. Accountability, intended as such, becomes an opportunity for banks to renew the trust which supports their relations with those contacts for whom they create value.

Accountability to stakeholders, according to the vision developed at associate level, is a systematic process that contributes to evaluate, explain, and improve company results, within a socially responsible framework. The attitude of businesses towards this type of accountability has changed in the course of time. Even the definition that ABI and the banks put forth in the last issued work, "Accountability to stakeholders. A Guide for banks", originated from progress and change; accountability at present is increasingly connected to business governance and management, and this means that a bank that chooses to confront itself with accountability takes on "the viewpoint of stakeholders" as its reference point.

In this context, ABI carefully observed a number of new factors: on one side, the current trend to develop topics discussed in the Management Report, both in different countries, and at European Union level (for example with the suggestion to integrate the management report with what is provided for by the 2003 CE Directive n. 51, which specifies that, "Information should not be limited to the financial aspects of a company's activity" but should include, where possible, "An analysis of environmental and social factors, necessary to understand a company's trend, performance, and situation"); on the other side, certain "ground-breaking" experiences of unique accountability, which are starting to come out on the European scene; in other words, businesses presenting results of their global performance in an integrated perspective, which takes into account social and environmental impacts of their activity. The Italian Banking System, starting from the approach developed within this scope, promotes an increasing connection between financial statements and accountability intended for a greater public than business shareholders or associates alone, both in terms of contents and presentation of information.

Accountability tools, in the same way as other CSR tools such as ethical code, charter of ethics, ethical training, etc., acquire value if originating from voluntary and self-regulating choices of banking businesses; on the other hand, we find fault in compulsory prospects, applied indiscriminately to different cultural, national, topical contexts on an issue that by nature is strongly influenced by the unique characteristics directly linked to the distinctive business of different companies, to its reference context, to contacts to which information is addressed, because it tells of commitments taken on, and activities performed, towards specific stakeholders.

The Italian banking industry is particularly active in accountability. In the year 2006, banks representing 72% of the system's active total and 82.7% of branches issued a report. (Source: ABI Laboratory on CSR). 44% of listed businesses drawing up a social balance belong to the investment sector, against 30% of manufacturing and chemical, 21% of services and utilities, and 5% of other services (Source: Monitoring Center on CSR accounts - Focus listed companies - 2005 SRI research on surplus).

- **Innovation and partnership**

Chance of cooperating through strategic partnership policies aimed at optimizing terms of access to markets, and using the most adequate and innovative channels; establishing businesses especially customized according to client needs; making adjustments within on-going productive processes: these are the key factors that will always characterize the most successful players. With reference to this, CSR becomes an opportunity to assess also because it is qualified by a strong orientation towards innovative partnerships with a number of contacts, in order to bring together competences and experience of diverse individuals. An example is shown by the course of action that is being defined in Italy for developing the practice of microcredit; partnerships among different parties are therefore becoming common; for example banking foundations, third sector parties and banks that, strong of their unique characteristics, are able to manage key factors of microcredit activities. Third sector parties take on a leading role in collecting necessary data for evaluating each case, and perform an initial informal screening on individuals asking for funding; banking foundations, through management of funds acting as guarantee, perform their function by getting involved in social issues with tangible actions; banks supply services, and at the same time collect information on individuals to entrust, who are useful to bank involvement in the community of reference. Projects that have emerged until now from this context confirm how interaction among parties with such different characteristics and *missions*, represents a sign of the great "value" that openness and "contamination" from different ways of operating, together with distinct ways of being, can generate.

Concerning aspects to which the Commission intends to pay particular attention in order to promote greater awareness of CSR, and raise CSR credibility even more, ABI, in accordance to its institutional role, will give its support to contribute to the following:

- giving CSR a solid reference framework (conceptual, theoretical, and practical) by carrying out recognition activities and by developing knowledge;
- contributing to develop discussion and education on this new way of making business, at different levels in the banking community;
- supplying corporate banks that intend to include social responsibility strategies in their business with the necessary tools

by way of:

- participating in a number of national and international multistakeholder discussion panels;
- developing initiatives to educate banks and stakeholders on CSR issues;
- developing specific training courses to broaden knowledge on the subject, and supply interested banks with tools useful to develop social responsibility strategies in their own structures;
- establishing connections with universities to strengthen relations between the macro level of sustainable development and the micro level of corporate social responsibility;
- promoting activities of research and analysis on CSR issues particularly relevant for the banking industry in relation to its role of mediating between offer and demand; this in itself has a significant impact on society, for example on financial inclusion. In the specific, in the course of the year 2006, two projects were developed:

- the first one on microfinance, intended in its broader sense as financial services concerning investments, savings, and payments by fund and remittance transfers; these services are available from commercial banks, and intended for the client bracket that can better be integrated in society and in the financial system. This goes from the third sector to

no-profit organizations, from low-income families to micro businesses, from atypical workers to immigrants;

- the other one, was a project specific to the so-called "bancarisation" of migrants.

- promoting innovation by developing financial sector activities, in relation to environmental impacts (indirect ones especially). In this context, ABI set up a partnership with WWF in 2005, whose goal is establishing a collective site for analyzing and planning measures concerning the financial sector's social and environmental challenges;

- contributing to promoting CSR issues at international level, by providing know-how gained in the course of years spent working with banks;

In this context, in representation of the Italian Industry, ABI takes part in the ISO projects for drawing up guidelines regulating social responsibility of organizations.

Comments and hopes for the future work of institutions on CSR issues

Defining the dimension of business multistakeholders calls for “paths to maturity” for all stakeholders involved. CSR cannot work if it remains unidirectional.

ABI supports the European Commission in the intention of reactivating a platform for multistakeholder discussion at European level, in order to:

- facilitate the exchange of experiences and *best practices* on CSR issues;
- promote the level of understanding of this subject among all stakeholders;
- monitor the progress of CSR issues among businesses in Europe
- bring to the attention of institutions the progress achieved by the European Alliance on CSR issues.

Our hope is that social responsibility, which at present is going through a period of great interest, sparkling initiatives and in-depth studies, is not just a passing phase, but a trend becoming increasingly established because of its connection to a new vision of business as an evolved system; a constellation of interests, in the specific, that has an important focus in managing relations among stakeholders with transparency, and in coordinating different expectations, from a perspective of reciprocal advantage and positive consolidation of relations.

With reference to possible contribution of social responsibility to improve bank transparency and efficiency, and to enhance competitiveness among banks as an essential tool to develop markets, we anticipate that CSR will be able to become consolidated in time, in order to influence society as a whole and render the economy of countries and Europe more competitive and sustainable.

The commitment of ABI and of the Italian banking industry

Both ABI and the banks intend to continue contributing to this goal. This is why the role that ABI created in relation to this issue, in conformity to its tasks and organizational goals, is two-fold: on one side, contributing to develop the discussion and spreading of this issue, at different levels, in the banking community, through a number of acknowledgements and in-depth studies to allow interested banks to prepare, while being fully aware, their own scenarios and prospects; on the other side, supply its own Associates with the tools necessary to integrate social responsibility strategies in their business. ABI followed this issue since the year 2001, when an interbank working group was established, and assigned the task of confrontation and discussion of social responsibility. At present, banks representing 87% of branches existing on national territory and approximately 75% of the system's active total are participating in this group.

The path developed at associate level promotes CSR as strategic procedure for businesses oriented towards generating value for a number of contacts, and careful to encourage management of relations that banks found and keep with their own stakeholders, as factors characterizing social responsibility of banks. ABI's awareness of CSR issues is also proven by the Protocol on sustainable and compatible development of the banking system, drawn up with labor unions on the 16th of June 2004. This agreement confirms the notion of voluntariness in the approach to social responsibility, as well as when adopting report tools such as social balances.

Great attention was given to consistency between systems to encourage staff members, and behaviors acted upon at all levels by businesses, as well as to issues on information, and staff training (especially sales staff); in this context, the need for clear and comprehensive rules in dealing with clients became apparent. Finally, a joint Monitoring Center was established between the parties, whose main goals are monitoring and spreading best practices on the issue.

ABI promotes this approach also with respect to the European Banking Federation, which represents the European banking system. As a matter of fact, in 2005 the FBE's European Banking Committee for Social Affairs signed a joint declaration with the sector's European trade union representatives on the social and occupational aspects of CSR issues.

ABI joined the European Alliance for CSR right away, since ABI shares the connection that it intends to create between social responsibility and innovation, in line with the path of Italian banks developed through ABI projects.

ABI commits to support the Alliance's goals to spread social responsibility, intended as motor for competitiveness and development, oriented towards dialogue and innovative partnerships among involved parties, also with the goal to provide and further develop analysis for efficient accountability.

In this context, activities at associate level are aimed at promoting tools developed through responsible confrontation among different contacts, with particular reference to the guidelines "Accountability to stakeholders. A Guide for banks". This guide is an operative tool founded on the needs of banks that are active on the issues discussed in a confrontation among multistakeholders, to include the viewpoint of stakeholders (recipients of accountability) in the document.

ABI provides the platform on CSR that is already active with banks, and adds in the activity of a Laboratory, which is part of the Alliance's operative plan, in the priority area defined as "of innovation/financial inclusion", contributing in this way to developing confrontation and exchange of best practices.