



Issues and responsibilities

Why this guide?

Only a few years ago, one would frequently hear that sustainable development was not a concern for the financial world, the pretext being that a bank, insurance company or asset Management Company was non-polluting. Today, this claim is no longer heard.

Making the most of the work done by the Club Finance, this guide is intended to set out the issues and responsibilities incumbent on the financial sector as regards sustainable development, as well as the principal responses the sector has generated.

Growing involvement

A whole series of factors are reason enough for the financial organisations to assume their responsibilities from the economic, social and environmental standpoints.

- External factors such as the increasingly stiff requirements of the national and international regulators (for example Bâle II¹), the demands of fund managers, the many questions raised by non-financial investment companies, the expectations of public opinion, lobbying from non-governmental organisations (NGOs), the activities of the media, and so on.
- Internal factors, in particular management's desire to optimise the way in which they deal with increasingly varied risks, to attract young and talented recruits who are ever more aware of the ethics of the companies in which they want to work, and to strengthen the cohesion of their departments as well as their feeling of contributing to shared values.

All the financial players therefore seek fully to take on their responsibilities as regards all their stakeholders whose interests they do their best to reconcile.

As far as the financial institutions are concerned, the issues in sustainable development are of two types. First, they have sustainable development problems they share with other companies; then they have particular responsibilities owing to the specific nature of their business. The responsibility of the financial players is of course to ensure that the financial circuits operate properly. However they also have a responsibility because of their influence on the way the economy works. Of all the economic sectors, the financial industry is that which has the biggest structural impact on the organisation and operation of the productive system as a whole.

An essential condition for economic and social development is that the financial sector should be robust and in good health, and for this reason it has always been heavily regulated by the public authorities and by the profession itself. Quite apart from the systems intended to ensure that it complies with these rules, the social responsibility of the financial sector causes it to anticipate risks, generate confidence and, put briefly, to align the continued improvement of its practices with the demands of society. A growing number of stakeholders will judge the financial sector not only on the efficiency of its methods but also on the social and environmental utility of its end results. In this context, it represents a formidable potential mechanism for change.

¹ The Bâle II agreement, which will come into force as from 2008, will affect the way in which banks are organised as regards monitoring commitments, and arrangements for audit and internal control. See also: www.bis.org/pub/bcbscs.htm.

Growing involvement

Shared responsibilities

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Shared responsibilities

The players in the financial sector share the obligations of any major company in terms of corporate governance, relations with shareholders, staff, suppliers and ... the environment on their own account (even though in this particular case, the problems are quite different from those in industry both in nature and in extent).

In all these fields, each company adheres to policies that do not differ fundamentally in principle from those followed by other business sectors.

On the other hand, differences can be discerned according to the internal culture of each organisation, its level of commitment and the duration of its involvement, the extent of the steps taken and how they operate in practice.

Specific responsibilities

1. ESTABLISHING IRREPROACHABLE BUSINESS ETHICS

Confidence lies at the heart of the financial professions: it guarantees continuity and hence global economic equilibrium. A stronger climate of trust is the proper response to potential threats to image and reputation, those intangible assets of every player. The elements of this trust are twofold:

- **Having confidence in oneself** calls for a clear and transparent vision of the practices applied within the business. On the basis of national and international regulations that have no equivalent in other sectors of business and industry, every financial establishment must put forth its best effort continually to strengthen its vigilance around three main supports: ethics, the management of risk (in terms of credit, markets and operating practices) and internal systems of control.
- **Giving confidence to the various stakeholders** requires the rules that are introduced, the existing procedures, the organisation and the ways of doing business to be the outward and visible proof of irreproachable business ethics. This is an increasingly tricky exercise because of the variety of the risks the financial professions faces. Quite apart from the risks that are easily identifiable (legal, regulatory, commercial and similar risks) the most serious and insidious of the ethical risks is the possibility of doubt about their reputation.

Not so very long ago, the image of these professions was mainly bound up with the security they inspired in their clients.

Today, the risks to the image have become much more varied with the development of attacks on society and the new threats arising from money laundering and terrorism. Today the financial sector faces risks that are increasingly diffuse, for example when they become involved in projects that have significant environmental and social effects or when they work in countries that have a bad reputation for their lax regulations (tax havens, for example), their infringements of human rights, and so on. The financial sector upholds specific values that make it legitimate for it to focus on all these questions. Through the efforts it has made in training and organisation, as well as its investment in methods and systems, it is obviously involved along with society as a whole in these different struggles.

2. INTEGRATING THE SUSTAINABLE DEVELOPMENT CRITERIA INTO THE PROFESSIONS

It is through their professions and in the framework of their customer relations that the multiplying effect of the steps taken by the financial organisations in terms of sustainable development is most significant. "The financial industry, by refusing or accepting a loan, by covering or not covering a particular risk, by investing in one area rather than in another, is the one that exerts the most powerful slipstream effect on the overall economic environment.²" Bankers and insurers are in a position to influence the choices made in other economic sectors and to encourage the emergence of good practices while limiting their risk:

- The banks and insurance companies have traditionally developed a **culture of satisfying clients and engendering loyalty**. The challenge placed before those at the sharp end is to go beyond short-term objectives in order to engender a long-term relationship. To do this, it is a matter of listening more, offering products and services that meet the relevant need, providing information that is clear and transparent, making the company's working practices more transparent and simpler, and so on.
- The banks are increasingly incorporating social and environmental criteria in their **policy for financing projects** undertaken by major companies but also in the **granting of loans** to small and medium-sized enterprises and even to individuals. While being more selective in their risk-taking, the banks are progressively exploiting the commercial opportunities inherent in sustainable development, whether this involves for example the funding of projects to protect the environment (renewable energy, ecological buildings, waste processing, and so on) or following the increasing power of the market for permits to emit greenhouse gases (still known as the carbon market). In this way, they encourage responsible economic development.

- The insurance companies are developing **the responsible underwriting of risks**. Already facing the risk of losses related to asbestos, they are also in the forefront as regards the induced effects of global warming. They are therefore placing increasing importance on the environmental component when they evaluate projects to be insured. In order to orientate their clients' practices, they are investing increasingly in prevention and advice. They also employ the leverage they have in terms of the size of premiums and exemptions which they can vary according to the extent of the evident ecological risk;
- Both banks and insurance companies are involved in promoting ranges of **socially responsible investment products** (ethical funds, sustainable development funds, joint stock options, and so on), that contribute to greater allowance for sustainable development issues being made by the companies in which they invest on behalf of their clients or on their own account.

While all aspects of satisfying the client and securing his loyalty is already a well-known feature of companies' policy and the working practices of their staff, awareness of the other three fields of action mentioned above is more recent. As the issues become better defined, the awareness of the different players is likely to be confirmed and their approach more systematic.

² Christian de Perthuis, « La génération future a-t-elle de l'avenir ? », Belin, 2003

3. HELPING TO STRENGTHEN THE SOCIAL BOND

Companies in the financial sector have a part to play in strengthening the social bond:

- They are **players in local life**
Thus in France **they contribute to land-use planning** as a business (in a number of regions, the banks and insurance companies are some of the leading private employers) and as a financial partner of local authorities.

They are **also involved in the economic and social development of other countries** where they have a presence, for example through their local recruiting, through the training programmes they arrange to benefit local staff whose employability they thus facilitate; they also benefit local clients (firms and individuals) through their centrally acquired know-how.

In France, just as abroad, they **give support to the social life** of the locality by supplying dedicated products and services, and also through structured sponsorship activities.

- The financial sector also has a **special responsibility in the distribution process**. Thus one of its tasks is to support all its clients and to take their specific features into account without discrimination. In this connection, mention may be made of the role incumbent upon banks in France as a result of the law concerned with the supply of services related to basic banking and excess indebtedness.
The responsibility of the financial sector in the distribution process may be illustrated by two other examples: the support it gives to the microfinancial institutions, thereby facilitating access to credit; secondly its involvement in concrete projects aimed at finding jobs for young people and the least well off.

Guide layout

The guide is concerned exclusively with the **specific responsibilities** of the financial sector. It is in three main parts each consisting of a series of topical papers:

- **Establishing irreproachable business ethics**
 1. Ethics
 2. Management of risks and internal control
- **Incorporating sustainable development criteria in the professions**
 3. Major companies
 4. Small and medium-sized enterprises
 5. Local authorities
 6. Private clients
 7. Socially responsible investment
- **Contributing to the strengthening of the social bond**
 8. Combating exclusion and solidarity
 9. Microfinance

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Note

The individual papers were produced using various sources of information:

- Contributions made during meetings of the ORSE Club Finance
- Annual reports and websites of various financial players (in France and abroad)
- A number of specialist works:
 - Elisabeth Laville, "L'Entreprise verte" [The green business] Village Mondial, 2002
 - Maria Nowak, "On ne prête (PAS) qu'aux riches – La revolution du microcrédit" [Lending is (NOT) only for the rich – the microcredit revolution], JC Lattès, 2005
 - Christian de Perthuis "La generation future a-t-elle de l'avenir?" [Is there any future for the next generation?"] Belin, 2003
 - Crédit Agricole "Horizons bancaires. Direction des etudes économiques du Crédit Agricole", [Banking outlook. Economic Research Division of Crédit Agricole], n° 319, December 2003
 - Les cahiers de l'ORSE "Développement durable et gouvernement d'entreprise: un dialogue prometteur" [Sustainable development and corporate governance: a promising dialogue], Thierry Wiedemann-Goiran, Frédéric Perier, François Lépineux, Editions d'Organisation, 2003

Each paper is illustrated by a selection of good practices applied by financial players in France and elsewhere. They are listed on the website: www.orse.org.

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