



Environmental challenges and opportunities Towards a greener European savings and retail banking sector

PROCEEDINGS

■ **Environmental challenges and opportunities
Towards a greener European savings and
retail banking sector**

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Climate Change:

The 'inconvenient truth' savings banks are facing up to

On 7 May 2008 the ESBG organised its conference on "Towards a Greener Savings & Retail Banking Sector" in the prestigious facilities of the Committee of the Regions. This conference was intended to be a platform for exchanging ideas between savings banks and stakeholders and amongst savings banks themselves on the challenges and opportunities represented by Climate Change for their profession. The ESBG invited European and national authorities, scientists and the civil society to come and explain their vision of climate change and how they address it or think it should be addressed. Then four ESBG Members outlined the measures they have set in place to reduce their direct and indirect impact on the environment. This triggered an interesting debate on the practical and commercial implications of the adoption by savings and retail banks of environmental strategies.

After having taken a look at what the sister industry –the insurance industry- is doing in order to adapt to the new risks generated by climate change, the ESBG presented its Resolution on the Environment which is aimed to be a roadmap for the development and introduction by the savings & retail banking sector of business solutions to face up to environmental challenges and opportunities.

About the legitimacy of savings banks as green financial players



In his opening speech **Heinrich Haasis**, President of DSGV (German Savings Banks Association) and ESBG President, insisted on the fact that climate change is a reality and that there is an actual link between our actions and global warming. For the ESBG President, referring to the 2007 Nobel Peace Prize Winner Al Gore and his film on climate change, this 'inconvenient truth' can no longer be ignored by any of us.

Savings banks have for long understood this. In fact, savings banks, said Heinrich Haasis, have been supporting sustainable development for centuries. For them focusing on environmental issues is a way of doing business and of attracting new clients as well as a way of bringing a return to local communities, which is central to the savings banks' vision.

In finding a response to climate change savings banks are naturally well placed. In view of their long term partnerships with the regions ("Nobody is closer to the customers than we are"), savings banks are involved in environmental awareness campaigns. Their core business, retail banking, puts them in a crucial position to encourage environmental friendly behaviours amongst their customers, including SMEs.

The ESBG President went on to say that many savings banks have integrated the environment in the day-to-day running of their operations by taking actions to reduce their energy consumption and their use of resources (cutting down on paper use; reducing staff travels; switching to ecological means of transport for commuting to work, ...)

Savings banks are also partnering up with other actors for lowering their impact on the environment be it NGOs, ecological risk assessors, environmental specialists, UN agencies (UNEP), other business initiatives (Equator Principles), etc.

But although savings banks are legitimate environmentally responsible businesses, more needs to be done and

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in cooperation with other stakeholders. Therefore, the savings banks are open for dialogue with scientists, policymakers such as the European Commission and other players about what they can do to contribute to the targets set out in the recent European Commission Green Paper on adaptation to climate change. The ESBG resolution, for Heinrich Haasis, is an example of the ongoing commitment of savings banks to the environmental issue.

What can financial institutions do or should be doing to fight climate change? The Institutional Perspective

“Businesses which engage themselves on the issue of climate change gain a competitive advantage”, Martin Power, European Commission



Martin Power, Head of Cabinet of the European Commissioner McCreevy, in charge of Internal Market & Services, was the first of the three institutional interlocutors to speak at the conference. He found the theme of the Conference very innovative and pertinent. “Climate change and energy policy will stay on the agenda, so today’s conference is an important one”, said Martin Power. For him, businesses which engage on the issue of climate change have an advantage compare to those which do not.

After coming back on the Commission Green Paper on adaptation to climate change which sets ambitious targets in terms of carbon reduction and use of renewable energy (20% reduction of carbon dioxide emissions and a 20% share of renewables in the European Union’s energy mix by 2020), Martin Power went on to explain the update on the Emissions Trading Scheme and the efforts which will have to be shared amongst Member States to make the level of renewable energy in the Europe Union go from its current level of 8.5% to 20% by 2020.

Admitting that the building sector was in frontline when it came to energy savings and development of alternative energy sources, Martin Power recognised the important contribution savings banks can make in this instance through for example green mortgages. For him savings banks have in general a very special role to play in society. They are close to the customers and the local authorities and they have large networks.

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“Savings banks are strong regional institutions and decentralisation is an asset for the EU in the fight against climate change”, Gerhard Stahl, Committee of the Regions



According to **Gerhard Stahl**, Secretary General of the Committee of the Regions, there are many similarities between ESG's vision, summarised by the three Rs (Regional, Responsible, Retail) and that of the Committee of the Regions (CoR), which is an organisation very much committed to Corporate Social Responsibility notably by supporting policies in Europe which try to combine economic development and job creation. The Secretary General of the Committee of the Regions insisted on the need to respect regional diversities in Europe, including in terms of environmental policy. For Stahl, diversity is an asset for the European Union. “Sometimes the EU tries to create a one-size-fits-all policy. That is not possible considering the large differences between the 27 EU Member States”.

For CoR's Secretary General, appropriate regional policy is crucial in many aspects including for example the success of the EU membership for the new Member States. A decentralised structure is also good for preventing external shocks, such as the financial crisis. It is finally also important, according to him, to respect regional differences and structures when addressing climate change. Gerhard Stahl ended his intervention by listing the many actions that his institutions had undertaken on the theme of the environment: a seminar on financing sustainable energy, the “Cities of the Future” exhibition, a study on energy efficiency and combating climate change at regional level.

“Banks are transforming short term savings into long term investments” French Minister of Ecology and Sustainable Planning and Development, Jean-Louis Borloo



In a video intervention French Minister, **Jean-Louis Borloo**, summarised the challenge the world is facing today: ever limited resources for an ever growing population.

How to do business in this context? For the French Minister, the economy will have to adapt to this new situation and become sober, sober in energy and resources use.

The French Government recognises that climate change is a new and determining phenomenon for our economies. It recognises also that the EU is leading the way in addressing this new challenge.

In France, President Sarkozy wants long terms concerns, like the ecology, to become central to all public policies. For the French Government one needs to find a model which reconciles these long term concerns with economic growth. France has understood that carbon reduction also costs and those environmental projects which costs are excessive will not be taken into account in public policies. At the same time, a joint action of all stakeholders is needed in order to create an ecological democracy which will allow the country to achieve a sustainable development. The French government has therefore decided to seal an ecological pact with the French people.

This is why the ‘Grenelle de l’Environnement’ was organised, referring to another Grenelle Summit which led to major socio-economic agreements in France. It was established in July 2007 and defined the French government policy on ecological and sustainable development issues for the coming five years. The Grenelle Environment model brought all representatives of society, including businesses, and public service representatives together to propose concrete actions to be implemented at national, European and international level. This model, said Borloo, reconciles the protection of the environment with economic development and social progress.

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Businesses have for most understood that assessing their carbon footprint and taking actions to reduce it was actually more beneficial than doing nothing. Banks have a major role to play by improving their use of energy but also by helping finance this transformation of the economy. Indeed what are banks all about, said Jean-Louis Borloo: they are transforming short term savings into long term investments. They need to provide financing, pre-financing, with as guarantee the carbon reduction and the cost savings which are going to be achieved in the long run. This debate will be central in the discussions in Copenhagen for a post-Kyoto agreement in 2009.

What can financial institutions do or should be doing to fight climate change? A Scientific Perspective

All scientists and climate change experts have passed on the same message: climate change is a reality; consequences could be dramatic; everybody needs to take actions now!



Monica Kristensen, Norwegian glaciologist and polar explorer, outlined the scientific evidence that in all parts of the world the cryosphere, the ice mass, is diminishing. This evidence, she said, is implacable and dramatic. Indeed ice masses are important to our local as well as global survival: their reduction can lead to changes in climate conditions, in ocean and air circulation. The famous Gulf Stream could be affected by the melting of glaciers. Solutions exist, concluded Monica Kristensen but we have to be careful that manmade solutions (f.i. biofuels) to this manmade problem (climate change) are not going to result yet in more destructions (deforestation) and unrest (riots in certain parts of the world caused by food shortages).



United Nations Intergovernmental Panel on Climate Change (IPCC) Member, **Pr Jean-Pascal van Ypersele**, came about with the same message. The IPCC, co-laureate of the Nobel Peace Prize in 2007, has scientifically demonstrated that: 1. global warming is a reality & that its consequences could be devastating (rise of sea levels; disappearance of animal species; increase in extreme natural phenomena like typhoons); 2. that this global warming is more than 90% likely caused by mankind; and 3. that the efforts to slowdown global warming need to be taken now! Jean-Pascal van Ypersele indicated that the cost of the measures to be set in place to reduce CO₂ and CO₂ equivalent emissions is not high (0.12% of the overall GDP growth rate), that the technologies already exist but that what is still lacking is the political will; in fact, the will of us all.

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What can financial institutions do or should be doing to fight climate change? A Civil Society Perspective



For **Matthias Kopp**, Project Manager in the financial and energy sector at the WWF in Germany, we are already seeing the negative effects of climate change and some of these are irreversible. To avoid the most catastrophic ones, we need to take immediate action.

The current economic & business models need to be adapted in order to allow for a reduction of the global warming by at least 2 degrees. Technologies that would help companies to transform their business are already available on the market. Technologies in energy efficiency for the industry, for buildings, in transport, in electricity generation; renewable energy sources & techniques for electricity production, for heating, for switching from coal to gas based power; CO2 capture and storage, etc.; are all readily available.

As far as financial institutions are concerned, they need to assess their corporate carbon footprint in order to define an appropriate investment and risk strategy. Different studies show interesting results sector by sector in terms of which will be more impacted than the other by climate change, which one will become a low carbon economic sector or on the contrary a carbon intensive one. The financial sector is not always in the first category.

The observations from the financial sector are showing so far that some institutions have ambitious emission reduction targets, others are more cautious. The majority of the institutions aim to reduce the emissions around 10% for 2010/12.

All financial activities -asset management, retail, corporate and investment banking, lending/financing and insurance- are relevant and impacted by climate change.

The financial sector should therefore adopt a general approach towards transparency in terms of reporting of carbon emissions and integrate indirect carbon footprint in its risk and management strategy. In their investment strategy, in their product development, in their internal governance, banks should include risks linked to climate change and the need for carbon reduction.

Savings banks' best practices: how to develop them?

Introducing the panel discussions which followed the presentations by public authorities and scientists, **Chris De Noose**, WSBI-ESBG Managing Director, insisted that savings and socially committed retail banks feel responsible and understand they need to act to combat climate change. Some have already engaged on this path and have some experience which they wanted to share with participants at the conference.

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Monica Malo, International Relations at the Confederation of Spanish Savings Banks (CECA), explained the global approach Spanish savings banks take towards climate change. Firstly, they finance through their Obra Social (the social dividends they return to the community) projects related to the environment and notably to the preservation of natural heritage but also environmental awareness campaigns. In 2007, the Spanish savings banks financed for a €100 million worth of these projects. Secondly, Spanish savings banks are taking measures to reduce their direct impact on the environment. 25% of Spanish Savings Banks have a carbon reduction plan and have received the environmental quality label ISO 4001. Some Spanish savings banks have taken actions to reduce their energy & water consumption, the volume of their waste, etc. One of CECA's members has even decided to reach 0% paper consumption by 2010. Some others offer environmental training to their staff.

In terms of indirect impact **Monica Malo** explained that several Spanish savings banks have adopted the Equator Principles; a financial industry benchmark for determining, assessing and managing social & environmental risks in project financing. Some use environmental risk assessment models. Some offer green credit lines to help schools install solar panels for example. Spanish savings banks propose ethical investment funds which abide to environmental and social criteria.



At BayernLB, member of the German Savings Banks Group, reflection was carried out some years ago on the sustainability of the bank's image, said **Wolfgang Kugler**, First Vice President Sustainability Corporate Development. To build this sustainable image, one needed to change the bank's products, etc. This reflection began in 1993 and it is in 2005 that BayernLB adopted a proper strategy for sustainability. BayernLB was one of the first banks in Germany to do so. For Wolfgang Kugler climate change and the dreadful consequences it can have for mankind is now evident. In this sense climate change means challenges but it also means opportunities, insisted Kugler. BayernLB looked at its product range and introduced the notion of sustainability in the whole of the company. The opportunities of engaging on the sustainability path are evident in terms of cost savings and image building.



In France Groupe Caisse d'Épargne (GCE) launched last year its Bénéfices Futur Programme which is aimed at reconciling economic performance and social & environmental responsibility. This is done through three pillars: 1. responsible marketing, 2. fight against climate change, 3. social development. For **Pierre Dutrieu**, Director Sustainable Development and General Interest at the GCE, the most innovative part of Bénéfices Futur is the eco-labelling of the bank's products. Each product will be labelled from 1 to 5 according notably to its level of CO2 emissions. For the definition of the label GCE co-operated with NGOs and decided to work in open source, meaning the eco-labelling methodology can be used by other banks free of charge. As a first step 75% of GCE's products will be labelled. By allowing customers to see with the eco-label the emissions entailed in the products in which they can invest, the GCE considers it has also a tool to promote the 'ecological' education of its clientele. Apart from this innovative eco-labelling, the GCE is also committed to reduce its carbon emission by 3% by 2050. A number of environment friendly products are on offer (Livret A Kipouss, Ecureuil Développement durable, Ecureuil Bénéfice Environnement).

The whole idea behind Bénéfices Futur is to accompany the client in his/her sustainable démarche and to confirm that Corporate Social Responsibility is at the heart of savings banks' business.

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Richard Cooper, Head of Corporate Responsibility at Lloyds TSB, said that his bank had long understood that before asking its customers to take actions in favour of climate change, it needed to start doing something about its own operations. This is why Lloyds TSB set itself achievable carbon reduction targets and will offset those emissions which it cannot reduce. Concretely Lloyds TSB is working towards reducing its CO2 emissions by 30% by 2012, year of the London Olympics, for which the Bank will be an official sponsor. It is a real strategic target which will require a lot of investment in property and IT and change people's behaviour. Even with the development of teleconferences, Lloyds TSB travel emissions went up. But the commitment to carbon reduction is supported by the Chairman of the Bank himself who commutes to work in an electric car.

REDUCE and GROW summarises Lloyds TSB's approach, said Richard Cooper. First, reduce the bank's footprint and in this way, lead by example. In order to do so the bank encourages its 68,000 staff to sign up to the sustainability experience. Staff is very enthusiastic about the plan and a challenge is to meet its expectations. Lloyds TSB has since 1996 an ecological risk assessment system in place. It is developing green products but, Richard Cooper said it is difficult to engage business customers to buy in. The greatest challenge is to bring together all the bank's departments and get a general support from across the board for sustainability, and especially from those who will have to deliver results. The immediate benefit of carbon reduction policy is cost saving. One needs to convince internally that if money is saved on gas and electricity bills the bank will be able to invest in other areas of its business and make it grow. It is a win-win situation.

Development of environmental strategies: Practical & commercial implications for savings banks

Should there be new legal obligations in terms of reporting of carbon emissions? From the panel discussions it came out that the profession is not in favour of new reporting obligations in terms of carbon emissions, even if at national level some form of obligation already exists. Some panellists challenged the assumption that public authorities would systematically have a better view on these issues. Companies can also be leading in the field of the environment. Experience has shown that mandatory schemes deliver more limited results than voluntary schemes. Even if a question was raised about the temptation for companies to do green washing, just do image building without taking any real commitments on the environment, for the panel focus should not be so much on reporting but on the actions the banks really set in place.

Is not switching to sustainability going to harm growth in the short term?

For the panel each bank has to decide for itself what the best solution is: green investment or offsetting. Savings banks need to go back to their core business: any environmental strategy or product needs to financially make sense. When in 2002 BayernLB was the first bank to propose a financial product in line with Kyoto it soon discovered the market was not ready for it and it had to take the product off the market as it was a failure. This is another proof that savings banks need to stick to our traditional business, commercial approach.

If a long term customer wants to invest in non ecological products, do you turn him/her down at the risk of losing that customer? The panel agreed to say that there are ecological risks in all businesses and financial institutions need to invest in all sectors to mitigate risk. But if the environmental risks are really high, banks need to talk to their clients even if they are long term clients. Things need to be clear. Banks should not finance a project which they do not support. One needs to be honest and transparent and stick to one's criteria if one wants to be credible. Clients need to be told if their project is critical in terms of sustainability

But all savings banks represented on the panel agree to say that rare are the customers or the money they have lost in adopting a clear environmental strategy.

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On the contrary, for the panel, it clearly helped their banks win new clients. By proposing green products, panellists said their banks got acquainted with a new range of clients because they now responded to their criteria. And examples of contracts won over by savings banks because they were able to demonstrate a true environmental strategy were cited.

Will climate change have an impact on insurance products offered by some savings banks and for instance can one expect an increase in the insurance rates? Panel agreed that the environment criteria will be more and more taken into account and have an influence on the prices of insurance.

A view from another industry: European Insurers' response to climate change



Sandrine Noel from CEA the European insurance and reinsurance federation confirmed that the insurance profession is already adapting to the climate change challenge. Mainly non-life lines of business are impacted by current & upcoming consequences of climate change. The insurance profession is working on developing risk assessment tools and mapping instruments which are also used by authorities (for example representing flood areas). In terms of risk management & reduction, insurers are revising their price, terms & conditions and selection procedures, as well as investing in prevention.

Savings banks: creating a new environmental momentum



According to **Chris De Noose**, the main conclusions to be drawn from the event are that global warming and climate change are unequivocal; that in order to avoid the worst impact, action is needed now and for this, (political) will is required. In fact actions from all sectors of society are called upon. Introduction of technological solutions will help but also changes of lifestyles, particularly in energy consumption, not only from citizens but also from economic activities and businesses.

WSBI-ESBG Managing Director pointed out that the debates have also shown that benefits and opportunities for businesses will derive from climate mitigation initiatives in particular in terms of innovative products and services.

The financial and banking sectors can do a lot, said Chris De Noose, especially with regards to risk management and investment strategy and building finance for retail clients. All steps are important!

For Chris De Noose the Conference was able to demonstrate the responsible engagement of ESBG members, savings and retail banks from 26 countries in Europe, in favour of the future of our planet. This engagement naturally derives from the long standing social commitment of savings banks towards their communities and towards society in general. WSBI-ESBG Managing Director said he hoped the conference would stimulate ESBG and its members to move forward on the topics of the environment and climate change, as a European organization and as individual banks, both for societal and for competitive reasons.

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“This conference has allowed us to profile savings banks on the European scene as forward looking and responsible retail banking actors, with the necessary dynamism and innovative power to overcome the current biggest challenge to mankind: climate change”, concluded Chris De Noose who went on to read out the ESBG Resolution on the Environment, adopted by the ESBG General Assembly on the eve of the conference.



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The ESBG Resolution on the Environment

This resolution should be considered as the green facet of the long-standing engagement of ESBG members in favour of sustainable development and corporate social responsibility, at local and regional level. The resolution also enshrines the positive approach of savings banks to transform environmental challenges into opportunities and clearly states their readiness to contribute to the definition and the introduction of innovative business solutions.

Through the Resolution, ESBG and its member banks specifically commit to

- raise awareness of clients and stakeholders, including employees, on environmental challenges;
- integrate the environment dimension internally, within the corporate general policy as well as in the retail banking products and services offered to their clients;
- dialogue with policy-makers and institutions, in order to develop an enabling framework for an efficient contribution to reduce the impact of business activities on the environment;
- assess the opportunities for public/private partnerships to develop large-scale, sustainable environment-friendly solutions, for the benefit of the community as a whole.

The ESBG Resolution will be used as a roadmap to prompt the definition and the introduction of innovative and creative business solutions to meet the environmental challenges.

As a first step ESBG will provide guidance to its members for the implementation of a complete and methodical response to climate change. As part of its Business Cooperation activities, ESBG has started developing a Guideline Framework on Climate Change for its members.

Furthermore, we wish to continue exploring with the European Commission the contribution that the European savings and retail banking sector could deliver to move to a low carbon European economy, built on resource and energy efficiency, on the basis of the proposals made in the Green paper on Adaptation to Climate Change and the Climate Action and Renewable Energy package. ESBG will assess the opportunity to take part to the European Advisory Group for Adaptation to Climate Change.

Finally, ESBG wishes to integrate environmental concerns in the policy papers that ESBG develops to support the views of its members on EU initiatives, either connected to their retail banking business, financial markets or investment activities. The potential environmental impact of EU policy and regulation should be part of the strategic issues promoted by European savings banks in their interaction with EU policy-makers and stakeholders.

Next steps

As mentioned by ESBG President Haasis at the start of the event, the 7 May conference is only a starting point. Further activities will be organized to keep ESBG members mobilized and to move forward on the environment topic.

About ESBG

ESBG (European Savings Banks Group) is an international banking association that represents one of the largest European retail banking networks, comprising about one third of the retail banking market in Europe, with total assets of € 5,215 billion (1 January 2006). It represents the interests of its members vis-à-vis the EU Institutions and generates, facilitates and manages high quality cross-border banking projects.

ESBG members are typically savings and retail banks or associations thereof. They are often organised in decentralised networks and offer their services throughout their region. ESBG member banks have reinvested responsibly in their region for many decades and are one distinct benchmark for corporate social responsibility activities throughout Europe and the world.



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