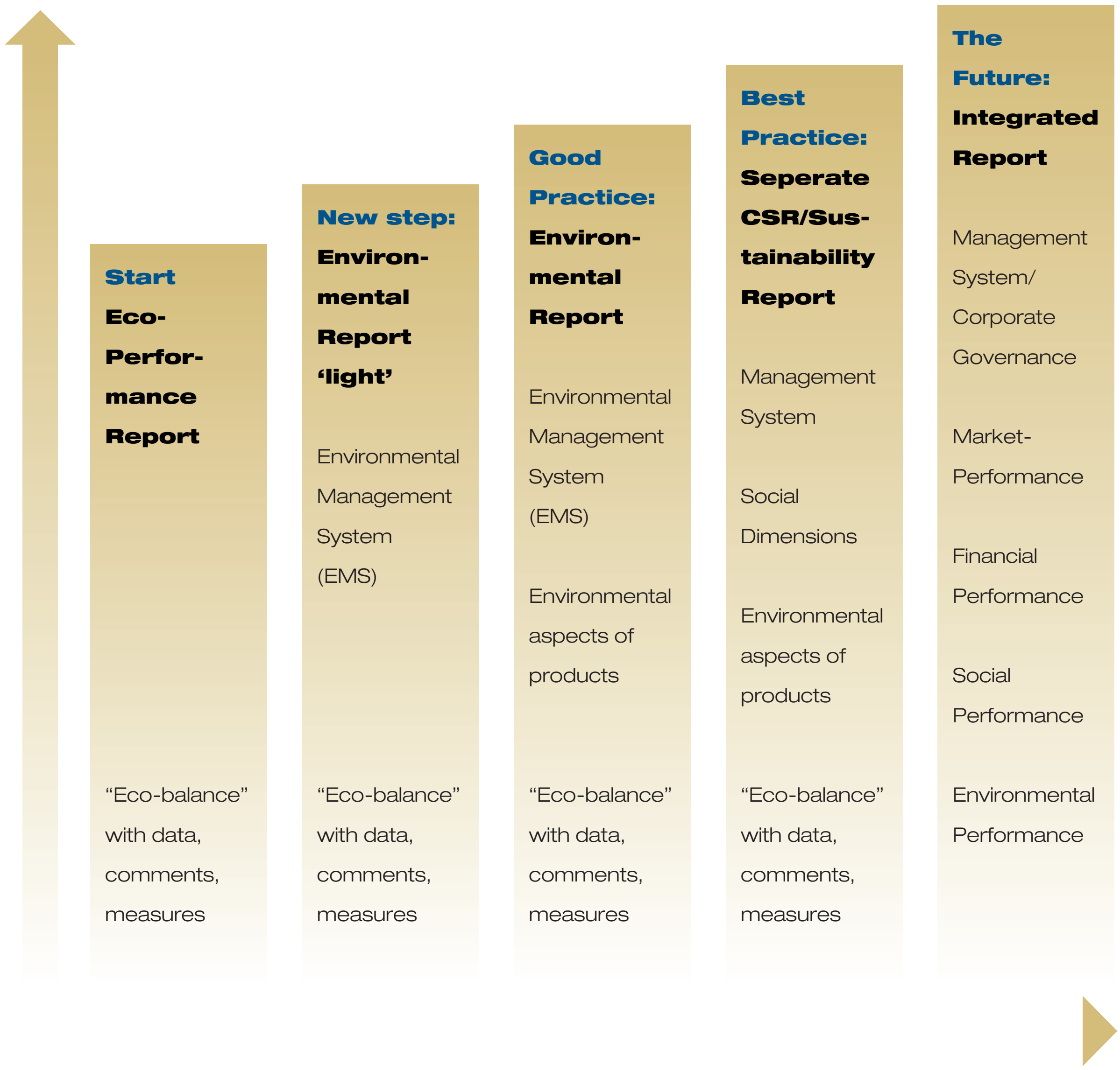
Sustainability performance measurement and reporting in financial institutions

Oliver Schmid-Schönbein and **Gaby Oetterli** E2 Management Consulting Inc.

Since the beginning of the 1990s, financial institutions have been systematically integrating environmental management systems. Often the first step focuses on internal environmental performance, covering areas such as energy consumption, business travel and waste. However, the actual financial products and services (e.g., loans, investments and insurance) are soon also taken into consideration. Recently, these institutions have also begun integrating social issues into the broader management and reporting of 'sustainability', or Corporate Social Responsibility (CSR).

This trend is also reflected in the development of environmental/sustainability reporting within the industry. In the early 1990s, financial institutions prepared eco-balance statements. This was followed by the production of sustainability reports and, more recently, the integration of sustainability elements within annual reports (Figure 1).

Figure 1: Reporting trend: from eco-balances to integrated reports



The management and reporting of environmental performance requires indicators to set corporate and individual goals and to measure performance: What gets measured gets done.

Financial institutions today can refer to various generic and sector-specific standards and guidelines. The work of the Global Reporting Initiative (GRI)[1] has become well known and respected worldwide and is being adapted by more and more companies. The 2002 Sustainability Reporting Guidelines contain not only guidelines for reporting, but also indicators on environmental, social and financial performance. Besides the generic guidelines, the GRI has begun developing supplements containing indicators which meet sector-specific needs. The first pilot supplements for the financial services and the tourism sectors were published at the end of 2002.

The work of the UNEP/SustainAbility 'Trust Us' Initiative[2], which includes a ranking of 100 corporate sustainability reports, also provides valuable information about what should be reported.

However, the financial sector soon realised that, due to the nature of its services, there is a need for a sector-specific methodology of sustainability management, performance measurement and reporting. As a first source of information there are sector-specific guidelines on environmental management and reporting, such as:

- the Swiss Bankers Association's guidelines *Environmental Management in Financial Institutions*[3];
- the UK-based FORGE I and II initiatives which provided guidelines on environmental management and reporting[4] and CSR management and reporting[5]; and
- the work of the UNEP FI Environmental Management and Reporting working group[6].

Initiatives focused on performance measurement

Besides the above-mentioned management and reporting guidelines, various initiatives have also been undertaken which focus on performance indicators. Examples are the internal environmental performance indicators developed by the VfU, as well as the EPI Finance 2000 and the SPI Finance 2002 projects, as explained below.

Fig. 2 shows how these indicator sets (next to generic indicator sets, such as the GRI Guidelines, UNEP Greenhouse Gas Indicators and ISO 14031) cover the different dimensions of a financial institution's sustainability peformance.

Figure 2: Overview of sector-specific sustainability performance indicator sets for financial institutions

	Suppliers	**Internal**	**Clients/Products**	**Society/Env.**
Environmental Dimension	**EPI-Finance: Management Performance Indicators**			
		VfU Indicators 1,2,3,4 & 5	EPI-Finace Business areas RB* IB* AM * INS*	VfU Indicators 6 & 7
Social Dimension	**SPI-Finance: CSR Management Indicators**			
	SPI-Finance Supplier Indicators	SPI-Finance Internal Indicators	SPI-Finance Business areas RB IB AM INS	SPI-Finance ■ Value Added ■ Contributions
Economic Dimension ■ Market ■ Financial	Performance Measurement ■ Financial Accounting & Reporting ■ ...			

* RB: Retail Banking; IB: Investment Banking; AM: Asset Management; INS: Insurance

VfU 1996

In 1996 the VfU (the Association for Environmental Management in Banks, Savings Banks, and Insurance Companies) presented the guidelines *Environmental Reporting of Financial Service Providers*[7]. These cover: the suggested content of environmental reports for financial institutions; and a proposal for key performance indicators on internal environmental management.

The VfU indicators have gained high acceptance among financial institutions in German-speaking countries and increasingly on an international level. Rating agencies also use this indicator set in their questionnaires on environmental performance.

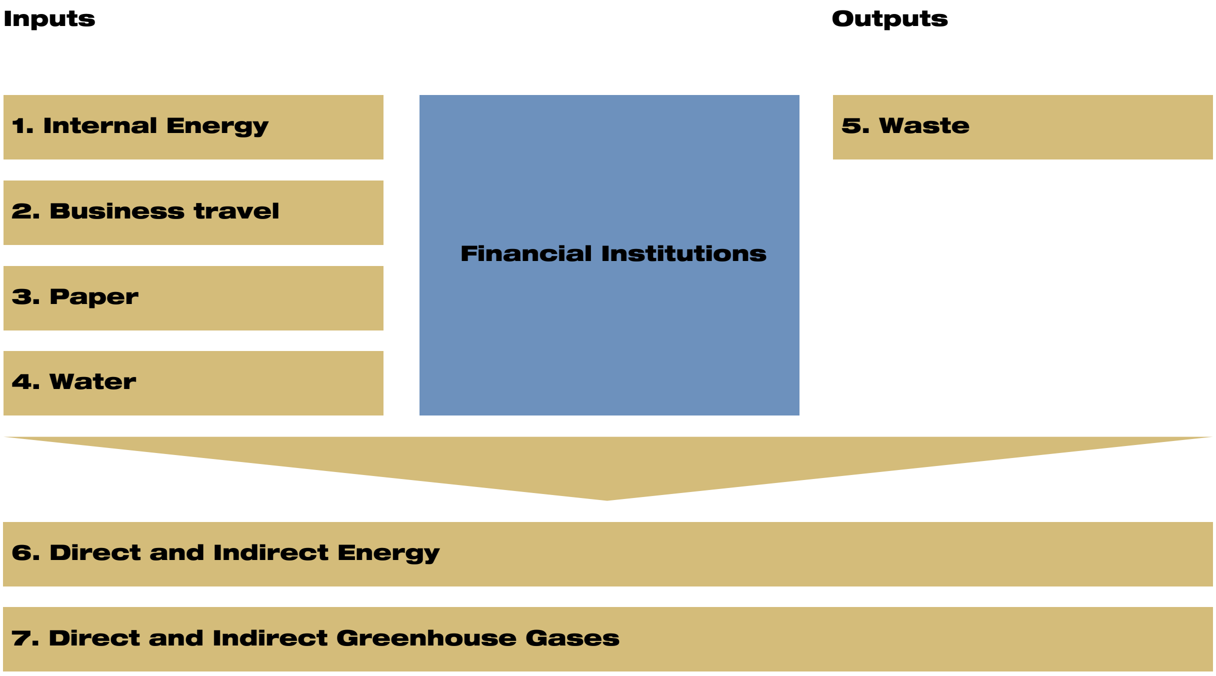
VfU 2003 update

After six years, the 1996 guidelines were deemed ready for an update and further development. In 2003, the indicators were updated in a project undertaken by five financial institutions from three countries, along with the VfU[8].

The VfU 2003 indicators focus on the internal ecology of financial institutions, such as: internal energy consumed; business travel generated; paper consumed; water consumed; and waste produced.

The data collected within these categories are then automatically calculated to provide environmental impact indicators on: direct and indirect energy consumption, aligned to the GRI Energy Protocol; and direct and indirect emissions of greenhouse gases, aligned to the WBCSD/WRI Greenhouse Gas Protocol, as described in the following chart.

Figure 3: VfU 2003 indicator overview



EPI-Finance 2000

This initiative focused on indicators to measure environmental management performance and environmental performance of products and services. It was undertaken by 11 financial institutions from German-speaking countries (see www.epifinance.com). The project group used the international standard for environmental performance evaluation, ISO 14031, as a guideline. For this reason, the indicators were categorised into Management Performance Indicators (MPI) and Operational Performance Indicators (OPI).

Figure 4: EPI-Finance indicator overview

Indicators:	Commercial Banking	Investment Banking	Asset Management	Insurance	Internal Ecology
Management Performance (MPI)					
1. Know-how	Environmentally relevant Posts and Environmental Departments				ditto
2. Training	Environmental Management Training				ditto
3. Auditing	Environmental Management Audits				ditto
Operational Performance (OPI)					
4. Integration into core business	Environmental risk check	Environmental risk check	Assets under Green Management	Environmental risk coverage	7 VfU indicators ■ Internal energy ■ Business travel ■ Paper ■ Water ■ Waste ■ Energy ■ Greenhouse gases
5. Environ-mentally orientated services	Financing environmentally oriented pioneers	Transactions with environmentally oriented pioneers	Investments in environmentally oriented pioneers	Environmentally oriented innovative policies	

Indicators were defined for the following business sectors: commercial banking; investment banking; asset management; and insurance (see Figure 4).

SPI-Finance 2002

This initiative focused on indicators to measure the social performance of financial institutions (see www.spifinance.com). Besides a comprehensive report, including definitions and company examples of all indicators, the project group also developed a sector-specific supplement to the GRI guidelines[9]. The charts below contain an overview of the SPI-Finance indicators, covering eight areas:

Figure 5

	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 8)	■ Internal CSR Policy (INT 1)	■ Screening of Major Suppliers (SUP 1)	
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)

Figure 6

	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 .

A look ahead

As a complement to the above-mentioned supplement on social performance, UNEP FI and the GRI are currently launching a project to produce a financial industry supplement to GRI's 2002 Sustainability Reporting Guidelines[10] on environmental indicators. The project work will be based on existing environmental indicator sets, and will consider recent developments and stakeholder input during development of the supplement.

Oliver Schmid-Schönbein is Managing Partner and Gaby Oetterli is Consultant at E2 Management Consulting.
E-mail: oliss@e2mc.com and oetterli@e2mc.com