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IX. Acknowledgement
I. Disclaimer

The Research Study Steering Committee has taken all reasonable care to ensure that the facts stated herein are true and accurate in all material aspects as at the date of preparation. The views and opinions expressed herein are solely based on the information shared by the participating banks. The Research Study Steering Committee does not guarantee the accuracy of the data provided by the participating banks, but ensures that the data would remain secure and confidential and assumes full responsibility for the same.

\[1\text{Research Study Steering Committee Member Organizations are: IIM Bangalore, WWF India, GRI Focal Point India, British High Commission and NextGen PMS Pvt. Ltd.}\]
II. Executive Summary

In comparison to their global peers, Indian banks have largely been slow in responding to sustainability concerns and issues, despite of their exposure to associated risks and the opportunity to create new business avenues. To address this and other issues around the same theme, the conference on non financial Reporting and Risk Management for Indian Financial Institutions was held in Mumbai on 6th June 2011. The Conference was the first ever initiative aimed at bringing together the senior and middle level management executives of banks and financial institutions in India to create awareness on the strategic imperative of considering non-financial aspects within corporate governance. The event also provided a platform to reflect on and discuss the policies, practices, barriers and benefits of sustainability and the banks’ responsibility towards Non-financial Risk Management and Reporting. The conference was utilized to launch this research study aimed at:

• Gaining insight into the preparedness of banks in India with regard to Non-Financial Reporting
• Mapping the major associated drivers & challenges and
• Providing policy recommendations to Reserve Bank of India (RBI) on the way forward for addressing gaps and thereby mainstreaming sustainability among banks in India.

The risks and opportunities associated with stakeholder engagement or the lack thereof are an integral aspect of sustainability. The stakeholder groups which were acknowledged by the banks as most important included primarily those which directly affect the bank’s business (e.g. customers, investors, employees etc.).

Addressing key challenges will be the first step towards supporting the banking sector to mainstream sustainability and non-financial reporting into their core business. Majority of banks identified ‘Risk of loss of business to peers’ and ‘Lack of RBI regulation’ as barriers to adopting sustainability. This was followed by Unavailability of skilled employees; Insufficient budgets to train employees; Complex reporting frameworks and Lack of interest shown by customers and investors.

The key drivers for implementing environmental and social initiatives included Enhanced brand reputation, opportunities for innovation and improved stakeholder relations and Preparedness for future compliance requirements in order of majority.

The participants were engaged through a survey and several one-on-one/group discussions conducted by the steering committee (comprising of IIM Bangalore, WWF India, GRI Focal Point India, British High Commission and NextGen). These meetings led to the recognition of some significant gaps, which require directives from regulatory bodies. These include:

• Awareness on sustainability issues, international guidelines and frameworks
• Sustainability reporting - formal frameworks and clear policies relevant for banks operating in India
• Training and development of relevant skills within bank employees
• Altering current management systems to incorporate sustainability issues
• Formal information sharing and dissemination platforms
• Guidance for banks on CSR focus areas

To address each of these gaps, some constructive policy recommendations have been made to the Reserve Bank of India to facilitate the transition from the existing business models towards inclusive and sustainable practices to achieve the goal of sustainable economic development.
Today’s modern concept of sustainability received major impetus in the first truly global Earth Summit at Rio de Janeiro (Brazil) in 1992 when economic growth was linked to the quality of environment, ecology and life of living beings. The conference was a major catalyst in increasing environmental movements, the development of formal associations and conventions to measure and manage the impact of economic development, in an effort towards achieving sustainable global economies.
IV. Sustainability & Non-Financial Reporting

1. Introduction

Sustainability is about ensuring long-term business success while contributing toward economic and social development, a healthy environment, and a stable society.

International Finance Corporation-World Bank Group

Non-Financial Reporting (NFR) refers to the relation between an organisation’s strategy, governance and financial performance to the social, environmental and economic context within which it operates. Acknowledging and reinforcing this relationship helps businesses take decisions that embrace sustainability, while enabling investors and other stakeholders understand the organisation’s overall performance.

The evolution and acceptance of a corporate performance measurement process that reflects the triple bottom line approach (People, Planet and Profit), is indicative of the significance, need and scope of NFR. This also draws attention to the paradigm shift that has taken place, from judging performance by market capitalization, share price and financial ratios, to a more holistic approach of measuring social and environmental value generated by businesses.

Case Study 1: Linkage of Performance to Sustainability

i. **A.T. Kearney Inc, in their study titled Green Winners**: The Performance of Sustainability-focused Companies in the Financial Crisis (2009), analysed 99 of the largest companies recognized as “sustainable” by the Dow Jones Sustainability Index and/or the Goldman Sachs Sustain Focus List and compared their performance with industry averages. This comparison led to a conclusion that companies with a commitment to sustainability tend to outperform their peers during the financial crisis.

ii. Corporate governance scores obtained from the S&P ESG India Index have a significant and positive link to company-level performance. Comparison of S&P ESG India and S&P CNX Nifty shows that companies having high scores at the ESG Index tend to perform better than their peers on the financial indices as well.
Given the context, NFR holds immense value and relevance for emerging economies like India with significant growth potential and hence a greater need to ensure that the growth achieved is sustainable, inclusive and responsible to reap maximum benefits.

With globalization, India is experiencing a trend where more Indian companies are expanding internationally and there is rapid increase in foreign investment in Indian corporates. This is furthermore, leading to increasing demand for transparency from the global stakeholders.

5 Year Historical Performance

Source: http://www.nseindia.com/content/indices/Factsheet_SP_ESG_India.pdf

Top 10 Companies By Weight as of January 2, 2012

<table>
<thead>
<tr>
<th>Company</th>
<th>Float Adjusted Market Cap (INR Billion)</th>
<th>Index Weight</th>
<th>Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mahindra &amp; Mahindra Ltd.</td>
<td>14,827.91</td>
<td>2.70%</td>
<td>Automobiles - 4 Wheelers</td>
</tr>
<tr>
<td>Wipro Ltd.</td>
<td>14,664.50</td>
<td>2.67%</td>
<td>Computers - Software</td>
</tr>
<tr>
<td>Infosys Ltd.</td>
<td>13,752.58</td>
<td>2.51%</td>
<td>Computers - Software</td>
</tr>
<tr>
<td>HCL Technologies Ltd.</td>
<td>13,390.04</td>
<td>2.44%</td>
<td>Computers - Software</td>
</tr>
<tr>
<td>ITC Ltd.</td>
<td>13,375.40</td>
<td>2.44%</td>
<td>Cigarettes</td>
</tr>
<tr>
<td>Tata Consultancy Services Ltd.</td>
<td>13,193.80</td>
<td>2.40%</td>
<td>Computers - Software</td>
</tr>
<tr>
<td>Tata Chemicals Ltd.</td>
<td>12,440.06</td>
<td>2.27%</td>
<td>Chemicals - Inorganic</td>
</tr>
<tr>
<td>Dr. Reddy’s Laboratories Ltd.</td>
<td>12,427.22</td>
<td>2.26%</td>
<td>Pharmaceuticals</td>
</tr>
<tr>
<td>Larsen &amp; Toubro Ltd.</td>
<td>12,355.94</td>
<td>2.25%</td>
<td>Engineering</td>
</tr>
<tr>
<td>ACC Ltd.</td>
<td>11,916.72</td>
<td>2.17%</td>
<td>Cement And Cement Products</td>
</tr>
</tbody>
</table>

Source: http://www.nseindia.com/content/indices/Factsheet_SP_ESG_India.pdf
2. Relevance and Role of Financial Institutions

As intermediaries of capital, financial organisations play a vital role in shaping the economy and driving sustainable development. Banking and financial institutions’ immediate environmental and social impacts are relatively low because most of the impacts are delivered through activities of other businesses that rely on financial institutions. However, banks have a paramount role in ensuring that businesses that borrow from them and depend on them for financing, understand the risks and follow a sustainable agenda. Despite the relatively indirect nature of their environmental and social impacts, banks need to examine the effects of their lending and investment decisions. Most business activities have some environmental and social impacts that typically result from sub-standard environmental and social practices, like:

- Over-use and wastage of natural resources
- Environmental damage caused by polluting activities
- Damage caused by accidents and mishaps
- Use of environmentally sensitive materials, etc.

The damage to a business by neglecting environmental and social issues can be in the form of:

- Fines
- Increased waste handling costs
- Costs from damaged assets with reduced value
- Legal claims
- Reduced sales etc.

Figure: Source: Jeucken 1988
The risks that such impacts create for financial institutions (FIs) can be legal, financial and/or reputational, requiring FIs to be more cognizant of the indirect impact of their portfolio on environment and society. These damages get indirectly transferred to financial institutions in the form of:

- Increased loan defaults
- Decreased value of investment
- Loss of collateral due to decreased asset values
- Liability for damages arising from negligent investment advice
- Loss of reputation and standing as a result of association with polluting businesses

With financial institutions increasingly expected to take on socio-enviro responsibility, there is a growing recognition of the importance of NFR systems specifically in this sector. But in a context specific to developing and emerging economies, the importance of NFR is still low primarily due to two key identified reasons:

- Lack of awareness of the associated issues, risks & opportunities
- Lack of systems and processes to deal with these issues

3. Non-Financial Reporting Frameworks and Indices

Non-financial reporting has emerged as a strong catalyst for change across several sectors. It provides the initial impetus for corporates to embed sustainability across their business operations. Following are some examples of the key reporting frameworks and indices that have helped leading global companies in identifying, measuring and managing their operations sustainably.

a. Global Reporting Initiative (GRI)

The Global Reporting Initiative (GRI) is a network-based organization that pioneered the world’s most widely used sustainability reporting framework, which sets out the principles and indicators that organizations can use to measure and report their economic, environmental, and social performance. GRI has a sector supplement that offers a tailored version of the guidelines specific to the financial sector.

b. Carbon Disclosure Project (CDP)

The Carbon Disclosure Project (CDP) is an independent not-for-profit organization holding the largest database of primary corporate climate change information in the world. Thousands of organizations from across the world’s major economies measure and disclose their greenhouse gas emissions and climate change strategies through CDP. In 2012, more than 655 institutional investors representing in excess of US$78 trillion in assets supported CDP in engaging with companies worldwide to disclose and ultimately manage climate change issues in order to create and sustain long term shareholder value. Indian financial institutions such as State Bank of India, HDFC Bank Ltd., IDBI, IDFC, IndusInd Bank Ltd., Reliance Capital, Tata Capital, YesBank Ltd. and Power Finance Corporation are part of the global institutional investors supporting CDP.

c. Dow Jones World Sustainability Index

Launched in 1999, DJSI are the first global indices, tracking the financial performance of leading sustainability-driven companies worldwide. Today, the index family has approximately USD 8 billion in assets under management in a variety of financial products including mutual funds, separate accounts, notes and exchange-traded funds (ETFs). With approximately 60 licenses, the DJSI have been linked to financial products in 16 countries, an indication of investors’ increasing appetite to utilize the index as a means to reflect their sustainability convictions within their portfolios. Each year, DJSI invite 2,500 of the largest companies in terms of free float market capitalization from all sectors to participate in the corporate sustainability assessment (CSA) and report on their sustainability performance.

d. United Nations Environment Programme Finance Initiative (UNEP FI)

The United Nations Environment Programme Finance Initiative (UNEP FI) is a unique global partnership between the United Nations Environment Programme (UNEP) and the global financial sector. UNEP FI works closely with over 200 financial institutions who are Signatories to the UNEP FI Statements, and a range of partner organisations to develop and promote linkages between sustainability and financial performance. Members from India include - Yes Bank Limited and Infrastructure Leasing & Financial Services (IL&FS).
e. United Nations Global Compact

The UN Global Compact is a strategic policy initiative for businesses that are committed to aligning their operations and strategies with 10 universally accepted principles in the areas of human rights, labour, environment and transparency. With over 8700 corporate participants and other stakeholders from over 130 countries, it is the largest voluntary corporate responsibility initiative in the world. When joining the Global Compact, companies make a commitment to issue an annual Communication on Progress (COP), a public disclosure to stakeholders on progress made in implementing the ten principles of the UN Global Compact, and in supporting broad UN development goals.

f. Principles for Responsible Investment (PRI)

Facilitated by UNEP FI and the Global Compact, the UN together with major institutional investors around the world has developed a set of Principles for Responsible Investment that defines best-practices for responsible investment (PRI). PRI aims to help investors integrate the consideration of environmental, social and governance (ESG) issues into investment decision-making and ownership practices, and thereby improve long-term returns to beneficiaries. Currently there are 977 institutions who are signatories to PRI. IDFC is the only Indian PRI signatory.

4. India & Non-Financial Reporting

Sustainability reporting is in a nascent stage of evolution in India. The various drivers behind the increase in dialogue, discussion and disclosure of sustainability performance in India are different from other parts of the world, where key drivers also include pressure from indirect stakeholders like civil society, owing to the maturity level of those markets. India's business case for sustainability and reporting is beyond doubt restricted by the fact that economic growth cannot be compromised and hence the need is to integrate environmental and social concerns in its growth strategy innovatively.

When we specifically focus on the Indian financial sector the awareness and response to NFR is comparatively low with very few institutions like Small Industries Development Bank of India (SIDBI), IndusInd Bank and Multi Commodity Exchange (MCX) bringing out an Annual Sustainability Report.


A key driver for organizations in India to engage in NFR has been a response to the Government of India and Regulators. Over the last few years they have shown pro-activeness in this space in terms of acknowledging the importance and driving greater awareness and responsiveness towards sustainability issues and NFR.

i) Government of India – Ministry of Corporate Affairs

The Ministry of Corporate Affairs, Government of India formally released the second version of National Voluntary Guidelines for the Social, Environmental and Economic Responsibilities of Business, on 8th July 2011. These guidelines emphasize the need for businesses to endeavour to become responsible actors in society, contributing to sustainable growth and economic development.

ii) Reserve Bank of India

Recognizing the crucial role financial institutions play in developmental activities, RBI drew the attention of banks to their role in Corporate Social Responsibility, Sustainable Development and Non - Financial Reporting through its circular dated December 20, 2007. (DBOD. No. Dir. BC. 58/13.27.00/2007-08).

iii) Securities and Exchange Board of India

In order to assess fulfilment of the environmental, social and governance responsibilities of listed entities, SEBI in its decision taken in November 2011 (SEBI Board Meeting, PR No. 145/2011) has made it mandatory for listed companies to submit Business Responsibility Reports, as a part of their annual reports, describing measures taken by them along with the key principles enunciated in the National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business, framed by the Ministry of Corporate Affairs (MCA). This requirement currently applies to top 100 companies by market capitalization and would be extended to other companies in a phased manner.

iv) BSE-GREENEX

This Index, launched on 22nd February 2012, includes the top 20 companies which are good in terms of Carbon emissions, Free-Float Market Capitalization and Turnover. The Index is a Cap Weighted Free-Float Market Capitalization weighted index comprising from the list of BSE-100 Index.

v) BSE Carbon Index

The BSE Carbon Indexing project is the first ever attempt to create a Carbon Index in an emerging economy. The objective of this initiative is to build expertise in analysing the risks and
opportunities associated with climate change and carbon regulation. The rationale behind such an index is that it will be used by investors to mitigate their exposure to financial risks associated with climate change and also to identify opportunities for investing in companies that pro-actively mainstream sustainability into their core business and reap benefits from it.

vi) SMERA & Green Rating

SME Rating Agency of India Ltd. (SMERA) is a joint initiative of SIDBI, Dun & Bradstreet Information Services India Pvt. Ltd. and several leading banks in the country. SMERA is the country’s first and only dedicated rating agency that primarily focuses on the Micro, Small and Medium Enterprises (MSME). Green Ratings from SMERA is an initiative to encourage MSMEs engaged in industrial activities to adopt better technologies and processes to prevent environmental damage.

vii) Standard & Poor’s - Environmental, Social, and Governing (S&P ESG) India Index

Sponsored by IFC and developed by a consortium consisting of Standard & Poor’s, CRISIL and KLD, the S&P ESG India index provides investors with exposure to 50 of the best performing stocks in the Indian market as measured by environmental, social, and governance parameters. The index employs a unique methodology that quantifies a company’s ESG practices and translates them into a scoring system which is then used to rank each company against their peers in the Indian market.
V. Introduction to the Research Study

The RBI circular dated 20th December 2007 (DBOD.No.Dir.BC.58/13.27.00/2007-08) mentions: ‘As such, there is general lack of adequate awareness on the issue in our country. In this context, the need for sustainable developmental efforts by financial institutions in India assumes urgency and banks, in particular, can help contribute to this effort by playing a meaningful role. In the circumstances, banks are advised to take note of the issues raised and consider using the same to put in place a suitable and appropriate plan of action towards helping the cause of sustainable development, with the approval of their Boards’.

Post this circular issued by RBI in 2007 on Corporate Social Responsibility, Sustainable Development and Non-Financial Reporting - Role of Banks, there was no observable increase in the response to Non-Financial Reporting amongst Banks in India. To address this issue, a first of its kind conference on Non-Financial Reporting and Risk Management for Indian Financial Institutions was held in Mumbai on 6th June 2011, in collaboration with the Indian Institute of Management Bangalore (IIM - B), German International Cooperation (GIZ) India, Small Industrial Development Bank of India (SIDBI), Global Reporting Initiative Focal Point India and NextGen (The Energy and Environment Company).

The conference was aimed at bringing together senior management executives of banks and financial institutions to create awareness on the strategic imperative of consideration of non-financial aspects related to corporate governance and provide a platform to reflect and discuss on policies, practices, barriers and benefits of sustainability and responsibility towards Non-financial Risk Management and Reporting. The guest of honour was Dr. KC Chakrabarty, Deputy Governor, Reserve Bank of India and the speakers included senior bankers like Mr. Rakesh Rewari, Deputy Managing Director – SIDBI, Ms. Karin Ireton – Director Group Sustainability Management, Standard Bank Group South Africa, Prof. Rajeev Gowda – Chair Centre for Public Policy, IIM Bangalore (also Director - Central Board of RBI) amongst others.

While Dr. KC Chakrabarty, stressed on the need for a quadruple bottom line approach (people, planet, profit and inclusive growth), other speakers drew attention of the participants to the established relation between organizational success and organizations’ performance on sustainability aspects and discussed relevant case studies.

The research study Non Financial Reporting Preparedness of Banks in India was launched at above mentioned conference by Dr. KC Chakrabarty. This study was conducted by IIM Bangalore, GRI Focal Point India, WWF India, British High Commission and NextGen to achieve three core objectives:

1) Assess the current preparedness of banks in India for NFR
2) Formalize key drivers and challenges for Banks to engage in NFR
3) Develop Policy Recommendations

A. Defining areas where banks require support from RBI in the form of incentives/ policy changes towards driving greater participation

B. Drafting policy recommendations for RBI with reference to topics which would assist banks in overcoming challenges and enabling voluntary proactiveness towards engaging in NFR
1. Participating Banks

20 Banks with assets of INR 42,00,000Cr. participated in the study and responded to the Questionnaire.

The selection of banks for the study was done through a mix of criteria to ensure representation of banks from different categories (e.g. nationalized, private, foreign etc.) having sizable operations and offering common banking services. The selection also stressed on taking into account a minimum of 3 banks under each of these categories to derive conclusive results. The sample size of the study was 20 banks with operations in India including eight private sector banks, eight public Sector/ Nationalized banks and four foreign banks.
2. Approach to the Study

This study acknowledges that sustainability awareness levels among banks in India are diverse ranging across the spectrum of expert level to ignorance. In this context, the study has been structured in a way to reduce this distortion and ensure greater accuracy and reliability of the data considered for interpretation.

The study included three key activities involving the participating banks.

a) Interaction with the Senior Management on Sustainability Strategy

During this interaction the research study committee set the context for the study and depending on the awareness levels gauged during the interaction, provided supporting information to equip the management at the banks to understand and comprehend sustainability issues and associated topics and thereby appreciate the relevance and importance of the study.

b) Bank’s Response to the Research Study Questionnaire

This is a critical component of the study. The questionnaire in the form of a survey was handed over to the participating banks to capture and record their responses to questions on specific sustainability topics. The bank personnel filling responses to the survey included the top management and heads of departments involved in sustainability.

c) Dissemination Sessions

Special roundtables and workshops were organized for participating banks to provide them a platform for consultation and dialogue with peers as well as comprehend the perception of RBI while also providing them a unique opportunity to understand, analyse and draw insights on various aspects of sustainability and the approach for incorporating NFR. Some of these included:

1) Roundtable on “Sustainable Banking in Perspective - Non-Financial Reporting & Banks in India” on Nov 14th, with the Hon’ble Minister of Climate, Government of UK, Mr. Gregory Barker, as the Guest of Honour. Participating banks included Royal Bank of Scotland, Citi Bank, IDFC, IFC, Dhanalaxmi Bank, Syndicate Bank and State Bank of India.

2) Interactive Sessions were conducted by the Research Study Steering Committee for the Senior Management of Andhra Bank and Federal Bank amongst others at their headquarters.

3. Sustainable Banking – One Goal, Many Attitudes

The financial services sector plays a very critical role in contributing to sustainable development considering the large influence they have as intermediaries of capital. However, banks in India are realizing and responding at a slow pace to these opportunities and challenges.

When we speak of sustainability in the context of banks, it refers to the philosophy that underpins a value system which acknowledges the need for banks to not only respond to and ensure that their employees, investors and customers benefit, but also focus on resource optimization in internal operations (local hiring, green procurement) social value creation & proactive steps towards enabling financial inclusion, responsible growth and mitigation of environment issues.
The research study questionnaire was divided into three modules to encompass key aspects associated to NFR with specific relevance to banks. The three segments were as follows:

a. Management Strategy and Approach to Sustainability
This module in the questionnaire was intended to capture the overall perception and strategy of the bank with respect to sustainability. The information sought, focused on identification of key stakeholders and targets (short, medium & long term) with respect to environmental and social performance of the bank. The topics of this module included Sustainability Focus Areas, Stakeholder Identification, Targets and Goal Setting, Key Challenges and Drivers.

b. External Focus: Towards Sustainable Banking
This module was intended to capture business opportunities perceived/derived and risks perceived/mitigated by the bank while mainstreaming sustainability through:
- Product and Services
- Strategic engagement with external stakeholders

The topics of this module included Sustainability through Product and Services; Strategic engagement with External Stakeholders; Awareness and Communication; Environment & Social Risk Mitigation; Business Opportunities.

c. Internal Focus: Operations & Associated Initiatives
This module was intended to capture preparedness and performance of the bank in mainstreaming sustainability in its day to day operations through:
- Policies governing operational practices
- Systems and processes towards tracking internal sustainability performance
- Internal Initiatives towards improving environmental and social performance
- Engagement with internal stakeholders

The topics of this module included Policies governing operational practices; Systems and processes towards tracking internal sustainability performance; Internal Initiatives towards improving environmental and social performance; Engagement with internal stakeholders.

Policy Recommendations for mainstreaming NFR amongst Banks in India
VI. Scoping and Key Findings

1. Management Strategy and Approach to Sustainability

a. Setting the context

One potential reason for why many banks don’t actively address sustainability and NFR despite its growing importance in today’s context is that they have not currently mapped the elements of sustainability to their strategy & focus areas.

In this module, the top management of the banks were asked about the key areas which they acknowledge while defining sustainability at the bank. Remarkably, 100% of the participating banks, acknowledged environment and financial inclusion, as Key Focus Areas, while only 90% of them considered social to be equally important.

Interestingly, 90% of the participating banks have taken initiatives towards managing environmental impacts of operations through initiatives focusing on paper conservation etc. while only over 70% have been able to take initiatives with reference to their products and services. The remaining banks have given a positive response in terms of including these aspects in their future strategy planning. This trend is justifiable, as the inherent driver for banks to take up these initiatives is cost reduction and resource optimization.

The responses also suggest that the most common focus areas with respect to social initiatives of the banks, included CSR programmes and philanthropy closely trailed by customer initiatives (e.g. customer literacy), whereas areas like hiring policies, initiatives driving integrity & values and supplier vendor relations had the least priority.

b. Who Matters?

The risks associated with poor stakeholder engagement and the opportunities provided by constructive ones have proved to be an integral aspect of sustainability.

The banks were asked to identify their key stakeholders, while also ranking them based on the importance of the relationship to the bank.

List of identified stakeholders:

- Highest Priority
  - Potential and Current Customers
  - Regulator
  - Employees
  - Board of the Bank
  - Investor and Shareholders
  - Government
  - Analyst Community
  - Business Partners
  - Competition/Peers
  - Employee Unions
  - Local Communities
  - NGO’s/Civil Societies
  - Academia
  - Suppliers and Vendors
  - Supranational Institutions

The stakeholder groups acknowledged by the banks as most important included primarily those that directly affect the bank’s business – Customers, Regulators, Employees, Investors & Shareholders and Board of the Bank, while those groups that were given the lowest priority included – Supranational Institutions, Academia, NGOs & Civil Society.
c. Characterizing Sustainability Transition

Sustainability goals and targets provide an insight to the bank’s commitment designed to guide its on-going/ fresh efforts to mainstream NFR in its overall strategy.

Banks were asked to select their sustainability targets and map them based on their positioning in the sustainability agenda. Interestingly, the social aspects with reference to – addressing Bottom-of-Pyramid needs, technology innovation to meet indigenous community needs have already been implemented by over 50% of the banks, whereas the environmental aspects, including the basic policy development and strategizing still fall in the medium & long term targets of the bank. Environmental aspects pertaining to products and services, e.g. mapping of GHG emissions, associated with lending portfolios fall in the medium term & long term targets of certain private banks, but also have been indicated as not part of strategy by over 40% of private public sector banks. Interestingly, one public sector bank and one foreign bank indicated that it has already mapped GHG emissions of its lending portfolio. This is quite a positive trend, as this is a step forward from mapping their internal operations only. The key sustainability goals with timelines as identified by the banks are:

1. Development and Implementation of Social and Environmental Checklist for Project Finance, Capital Investments and Extension of Credit. Nine out of 20 participating banks have already implemented this initiative
2. 11 out of 20 banks already have a strategy in place for investing in dedicated product innovation teams catering to Bottom-of-Pyramid needs
3. 55% of the participating banks have already setup more branches than mandated in unbanked /under banked regions
4. 50% of the respondents invest in technology to address indigenous community needs and making them bankable (e.g. Mobile Banks)
5. Only 60% of the banks consider mapping of GHG emissions associated with lending portfolioas part of their strategy over a long term
6. Disclosure of Sustainability Performance in the public domain is a medium term sustainability goal for 15% of banks and 15% of banks do not consider this as part of their strategy at all
7. Commitment to International Social and Environmental Frameworks/Standards is a part of long term strategy for about 20% of the banks and the same percentage of banks do not consider this as part of their strategy at all

Who is in-charge of driving sustainability?

Responsibility Chart

- Senior Management 58%
- CXO 20%
- Member of board 22%

When the banks were asked to identify who at the bank would be taking the responsibility for the targets and goals, 58% of the banks indicated senior management, which reiterates the importance of the role played by the senior management in ensuring wide reach, commitment and implementation of these initiatives within the organization.

d. Sustainability Challenges

In India, the incorporation of social and environmental cost, associated benefits and performance into a bank’s main business strategy is still in an embryonic stage. Addressing key challenges will be the first step towards assisting the banking sector in the mainstreaming of sustainability and NFR into the present system. The banks were asked to select key reasons, which prevented/dissuaded them from adopting sustainability and NFR. About 42% of the banks identified that there was a lack of clarity on tangible benefits of sustainability, while 21% pointed out on a lack of clarity on intangible benefits. Key Challenges in Mainstreaming Sustainability and NFR in the Banking Sector In reference to the primary challenges, the trend indicated that the Risk of loss of business to peers and lack of RBI regulation assumed maximum emphasis, followed by unavailability of skilled employees/budget to train employees, complex reporting frameworks, lack of interest to key stakeholder’s - customers and investors. Notably, only 5% of the banks have indicated senior management buy-in, as a challenge. This is a strong signal that senior management buy-in is not a barrier to mainstreaming sustainability & NFR among banks in India.
e. Influencing Sustainability Trends - Key drivers

Understanding key sustainability ‘drivers’ for banks helps identify appropriate ‘levers’ that could accelerate the pace of change among banks in India.

Banks were therefore asked to select the key drivers that influenced them to invest in environmental and social initiatives.

In reference to environmental initiatives, the trend observed across banks (private, public sector and foreign banks operating in India) has been uniform. Over 80% of banks acknowledged – enhanced Brand reputation, opportunities for innovation and related aspects as key drivers. While, aspects such as, Ability to motivate and retain employees, Competitive advantage, improved stakeholder relations were rated low.

A slightly different trend was observed with respect to social drivers. Indian Banks identified improved stakeholder relations and preparedness for future compliance requirements, as important drivers, particularly in the context of the new Companies bill mandating CSR in debate.
Key Drivers

- **Environment Initiatives**
- **Social Initiatives**

**Preparedness for future compliance requirements**
- Social Initiatives
- Environment Initiatives

**Opportunities for technology/product innovation**
- Social Initiatives
- Environment Initiatives

**Enhanced brand reputation**
- Social Initiatives
- Environment Initiatives

**Improved ability to attract and retain skilled employees**
- Social Initiatives
- Environment Initiatives

**Competitive advantage**
- Social Initiatives
- Environment Initiatives

**Improved stakeholder relations**
- Social Initiatives
- Environment Initiatives

**Access to new markets**
- Social Initiatives
- Environment Initiatives

Legend:
- **Public**
- **Private**
- **Foreign**
2. External Focus: Towards Sustainable Banking

a. Setting the Context

The banking sector in India has begun to take its first steps towards stimulating sustainable development. However, considering the leverage financial institutions have on the industry, there is scope to do much more. In this regard, banks must engage further with their customers, investors, analysts, competitors and policy-makers in order to understand:

- Their capability to influence various stakeholders towards adopting sustainable business practices
- The business benefits of incorporating environmental awareness into their decision making
- The rules of the game (e.g. transparency issues, codes of conduct and legislation)
- The products and services they can offer to their customers to positively influence behaviour

b. Driving Sustainability – Inclusive Multi Stakeholder Approach

When banks were asked to select the areas of engagement with each of their identified stakeholders, it was noticed that their approach towards incorporating sustainability as part of their engagement was influenced most by aspects having a direct impact on their core business. The topics opted by most banks for engagement with their top three stakeholders is as below:

<table>
<thead>
<tr>
<th>Stakeholder</th>
<th>Most opted Environment Topics for engagement</th>
<th>Most opted Social Topics for engagement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investor</td>
<td>Internal Environmental Initiatives of the Bank</td>
<td>CSR Programs</td>
</tr>
<tr>
<td>Customer</td>
<td>Internal Environmental Initiatives of the Bank and Products and Services to address climate change</td>
<td>Products/Services to address Inclusive growth</td>
</tr>
<tr>
<td>Regulator</td>
<td>Internal Environmental Initiatives of the Bank and Products and Services to address climate change</td>
<td>Products/Services to address Inclusive growth</td>
</tr>
</tbody>
</table>

### c. Embedding Sustainability

Innovative products and services offered by banks, demonstrate success stories of addressing the key challenges of the industry and society through explicit programs aimed at embedding sustainability into every aspect of business, including supply chains, policies, marketing strategies and stakeholder relationships.

Banks were asked to select sustainability initiatives which they have undertaken for their external stakeholders. The options that were provided include:

A. Customer Literacy
B. Engagement with Supplier and Vendors

C. Community Development Projects
D. Baking Facilities for Differently abled

Detailed responses to each of the options are as given below:

A. Customer Literacy

Why is financial literacy so vital? Individuals and households who are financially literate are able to make informed choices about how they save, borrow and invest. Furthermore greater financial literacy can aid a better allocation of resources and thereby raise the longer-term growth potential of the economy.
Financial literacy and awareness are thus integral to ensuring financial inclusion. This is not just about imparting financial knowledge and information; it is also about changing behaviour. For the ultimate goal is to empower people to take actions that are in their own self-interest. When consumers know of the financial products available, when they are able to evaluate the merits and demerits of each product, are able to negotiate what they want, they will feel empowered in a very meaningful way. They will know enough to demand accountability and seek redressal of grievances. This, in turn, will enhance the integrity and quality of financial markets. One big lesson we have learnt in our outreach programmes is that financial literacy is not just a public good; it is a merit good. What this means is that by deepening financial literacy, not just individuals and households, even the society at large stands to benefit.

Quote 1: (Comments by Dr. D. Subbarao, Governor, Reserve Bank of India at the RBI-OECD International Workshop on Financial Literacy in Bengaluru on March 22, 2010)

58% labourers surveyed in a Max New York Life-NCAER Study in 2008 said that their first choice for depositing savings would be to keep it at home.

Nearly half of India's population still lacks access to banking and other financial services. This makes it essential for banks to address these issues by providing the 'unbanked' & 'underbanked' sections of population with greater access to the entire gamut of banking services for driving development and achieving the double digit growth rate India aspires towards.

The responses received from the banks reflect the acknowledgement of the importance of this topic with 16 out of 19 banks having retail operations indicating that they undertake initiatives for Customer Literacy.

Case Study 2: Initiatives of RBI
Reserve Bank of India has initiated a "Project Financial Literacy" with the objective of disseminating information regarding the central bank and general banking concepts to various target groups. One important instrument in this is the RBI website which is now accessible in 13 language options. The 'Financial Education' web site link offers basics of banking, finance and central banking for children of all ages. In a series of comic book initiatives, the Reserve Bank has sought to simplify the complexities of banking, finance and central banking, with the goal of making the learning fun and interesting. RBI has also enjoined upon all the banks to set up credible financial literacy and credit counselling function in their frontline branches.

Case Study 3: Customer Literacy Initiative by ICICI Bank
ICICI Bank initiated a series of articles with Times of India & Economic Times with the intention of helping customers and non-customers to conduct and conclude banking without any problems & in a hassle free manner, for various banking procedures.
Source: As informed by ICICI Bank
B. Engagement with Suppliers and Vendors

For banks to embed sustainable practices in their business and operations it is essential that their suppliers and vendors are apprised of the sustainability policies and are made aware of sustainability issues.

Banks globally are becoming aware of the need to develop strategies that extend their corporate governance and sustainability processes beyond the bank’s boundary to their supply chain partners to be able to achieve their sustainability goals.

In this regard, the banks were asked whether they drive any sustainability initiatives with reference to their supply chain. With 13 out of 20 banks giving a negative response to this, it appears that currently there is insufficient level of engagement between the bank and their suppliers on sustainability issues.

Case Study 4: Supplier Engagement by Citi Group

Citigroup, one of the first banks to launch a sustainable supplier program, has engaged its supply chain to help drive its sustainability strategy.

As part of its strategy to integrate ethical, social and environmental factors into its global procurement practices and to positively influence suppliers, Citi launched a Sustainable Supplier Program in 2009.

One innovative example of how a vendor is helping Citi reach its environmental targets is the rePurpose program developed by furniture manufacturer Herman Miller. Herman Miller worked with Citi's team to design durable, cost-effective furniture for a branch environment that met or exceeded LEED (Leadership in Energy and Environmental Design) standards, and then, through the rePurpose program, ensured that the old branch furniture was refurbished and donated by Citi to local community non-profits like Habitat for Humanity, rather than discarded into a landfill. This collaborative program resulted in 159 tons of waste diverted from landfill and the donation of slightly less than 4,000 pieces of furniture to deserving families.

Press release by Citigroup Inc. (NYSE: C) June 29, 2011

C. Community Development Projects

Corporate citizenship calls for business organizations to consider the interest of society by not only taking responsibility for the impact of their activities but also voluntarily taking initiatives to improve the well-being of the local communities through development projects.

The response trend to this option indicates that over 85% of banks undertake community development projects. This also directly relates to the trend observed earlier where banks cited preparedness for future compliance requirements as one of the key drivers for them to invest in social initiatives.

Case Study 5: Pioneering Rural Development – Canara Bank

Widely recognized as the common man’s bank, Canara Bank has taken multifarious socially relevant pursuits as part of its CSR activities. Under Canara Bank Centenary Rural Development Trust (CBCRDT), the Bank has established exclusive training institutes to promote entrepreneurship development among rural youth and encourage them in taking up self-employment activities. During this year 2010-11, three new training institutes were opened at Kanchiram Nagar and Hathras in Uttar Pradesh and Tirrupur in Tamil Nadu taking the number of such training institutes to 29. These training institutes have trained 26,753 candidates this year alone, thereby addressing 1.25 lakhs unemployed youth since its inception. The candidates trained comprised 68% women and 31% SC/ST, with an impressive settlement rate of 67%.

The Bank, under the Rural Clinic Service Scheme, provides basic healthcare services in remote areas lacking basic medical infrastructure facilities and encourages doctors to set up clinics in identified areas. As on March 2011, the total number of such clinics rose to 544.

Under `Jalayoga`, a scheme to provide safe drinking water, the Bank has implemented 35 projects in its lead districts.

Source: Canara Bank Annual Report FY 2010-11

D. Banking facilities for the differently abled and disadvantaged groups:

The Reserve Bank of India’s Master Circular on Branch Authorization under setting up of Off-site / Mobile ATMs - General Permission, mentions the following with reference to catering to customers with disability:

- Banks are advised to take necessary steps to provide all existing ATMs / future ATMs with ramps so that wheel chair users / persons with disabilities can easily access them and also make arrangements in such a way that the height of the ATM does not create an impediment in its use by a wheelchair user. Banks may also take appropriate steps including providing ramps at the entrance of the bank branches so that the persons with disabilities / wheel chair users can enter the bank branches and conduct business without much difficulty.
• Further, banks should make at least one third of new ATMs installed, as talking ATMs with Braille keypads and place them strategically in consultation with other banks to ensure that at least one talking ATM with Braille keypad is generally available in each locality for catering to needs of visually impaired persons. Banks may also bring the locations of such talking ATMs to the notice of their visually impaired customers.

In this regard we see that around 43% of the banks (having retail operations) have taken initiatives towards addressing disadvantaged groups in terms of providing multi-lingual information material, which is promising. But the response of banks in terms of taking initiatives towards making the branches and ATMs friendly for differently abled is less than 32% and definitely indicates the need for greater attention.

Persons with disabilities constitute a significant 5 to 6 per cent of India’s population.

The large number of people excluded from access to financial services because of disabilities is important to banks as it is one of the key frontiers of financial inclusion and a significant business opportunity as service providers.

d. Disclosures and Communication

For the finance sector to play a key role in supporting global sustainable development, it is essential that they are addressing the expectations of key stakeholders while also keeping them apprised of the efforts and initiatives undertaken by the bank, through relevant channels of communication.

The whole exercise of preparing a disclosure with the aid of formal sustainability management systems enables banks to reflect on the current gaps and define steps/initiatives towards addressing them and at the same time developing an interactive engagement channel with key stakeholder groups.

The Banks were asked to choose their mode of communication for environmental and social aspects considered while undertaking business transactions.

Annual Reports were chosen as the most popular mode of disclosure by over 95% of the banks. 14 out of 20 banks also indicated communicating sustainability measures through the company website.

Interestingly, 14 out of 20 banks already disclose or plan to disclose sustainability performance through a Sustainability Report. Of these 6 banks indicated adopting GRI as the reporting framework, one private sector bank indicated UNGC and one foreign bank reported as per the requirements of its group reporting framework.

e. Environmental & Social Risk Mitigation

Financial institutions have an important role to play in environmental sustainability. Financing of projects or companies that could have negative environmental and social impacts can affect a bank’s bottom line, indirectly as a result of legal, regulatory, credit, reputational risks that the project or company might face. The risks associated with such penalties are a strong incentive to integrate environmental and social risk assessment and management, as part of their overall risk management process.

Global banks have acknowledged the importance of mapping the risks that environmental and social issues pose for financial institutions, and have taken measures to factor them into their internal risk assessment models as well as in the overall corporate risk management strategy.

In this regard, the Indian banks were questioned on their approach towards integrating environmental and social considerations into their risk management framework.

It is encouraging to observe that 80% of the participating banks indicated incorporation of environmental considerations or committed to incorporate them in the future. When the banks were asked to select the departments which they screened for environmental risks over 62% of the banks who responded positively indicated lending portfolios, 37% of the banks indicated investment banking and 25% indicated Private Equity.

![Environmental Risk Mitigation Graph]

<table>
<thead>
<tr>
<th>Department</th>
<th>Private</th>
<th>Public</th>
<th>Foreign</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wealth Management</td>
<td>2</td>
<td>4</td>
<td>6</td>
</tr>
<tr>
<td>Lending Portfolio</td>
<td>10</td>
<td>8</td>
<td>2</td>
</tr>
<tr>
<td>Investment Banking</td>
<td>4</td>
<td>6</td>
<td>2</td>
</tr>
<tr>
<td>Private Equity</td>
<td>2</td>
<td>4</td>
<td>6</td>
</tr>
<tr>
<td>Insurance</td>
<td>0</td>
<td>2</td>
<td>6</td>
</tr>
</tbody>
</table>
In the case of social considerations, 80% of the banks include or plan to include these aspects as part of their risk assessment, with human rights, negative impact on vulnerable groups addressed by over 62% & 56% respectively and local community displacement & impact on ecology addressed by over 37% & 43% of these banks, respectively.

Regarding the exposure of loan portfolio's to environmental and social risks of the 15 banks which have responded to this question, seven indicated measuring loan portfolio exposure to environment and social risks while the other five indicated a commitment to implement the same in future. Interestingly, no private bank that participated in the study indicated measuring loan portfolio exposure to environment and social risks.

On the environmental front, nine out of 19 banks (having retail operations) indicated no attempt towards deriving business opportunities from offering climate related retail products space. This indicates the need for greater awareness and a proactive and innovation driven approach by banks to tap into the market needs and deliver products that encourage green/environment friendly consumerism. What are the opportunities provided by the shift from single to triple bottom line approach? Six of the responding banks provided details on the incentives they provide for the benefit of the customer's w.r.t climate-related retail products; five of them indicated reduced service charge, reduced loan processing cycle and lower collateral requirement. Others that were mentioned included – reduced interest rates and zero collateral requirements.

Some of the products/services mentioned by banks for catering to the clean tech sector needs included:

- Upfront finance against carbon receivables & carbon finance
- Financing of clean power generation, financing manufacture of clean tech instruments, technology upgradation, any process involving clean technology

f. Business opportunities and focus areas

In terms of business opportunities, 75% of banks indicated currently/planning to engage in investments delivering social value, with most popular focus areas as housing, education, women empowerment and skill training. Interestingly, three of these focus areas (excluding women empowerment) have been indicated by all the participating public sector banks.

Before we enter into any transaction, we ask ourselves three questions: Is it in the best interest of our customer? Is it systemically responsible? And does this create economic value? The answer to each must be an overwhelming "Yes." –Vikram Pandit, Chief Executive Officer, Citigroup Inc.
What are the opportunities provided by the shift from single to triple bottom line approach?

**Business Opportunities**

<table>
<thead>
<tr>
<th>Investments/Financing Commitments to clean tech sector</th>
<th>Yes</th>
<th>No</th>
<th>Plan to in future</th>
</tr>
</thead>
<tbody>
<tr>
<td>Climate related retail products</td>
<td>Yes</td>
<td>No</td>
<td>Plan to in future</td>
</tr>
<tr>
<td>Investments delivering social value</td>
<td>Yes</td>
<td>No</td>
<td>Plan to in future</td>
</tr>
<tr>
<td>Incentives to customers</td>
<td>Lower collateral requirement</td>
<td>Higher value project finance</td>
<td>Reduced loan processing cycle</td>
</tr>
<tr>
<td>Social Focus Area</td>
<td>Healthcare</td>
<td>Artisan groups and Products</td>
<td>Organic agri</td>
</tr>
</tbody>
</table>

**Private**  **Public**  **Foreign**
3. Internal Focus: Operations and Associated Initiatives of the Bank

a. Setting the Context

This section aims to understand how banks alter their internal operating systems to incorporate best practices relating to environmental and social considerations. This can be done by engaging with their internal stakeholders on these issues to create awareness and by managing the environmental and social impact of their direct operations.

For banks to incorporate sustainability practices and be able to contribute to sustainable development it is essential that banks ensure commitment from their key internal stakeholders - Employees, Board of the Bank, Employee Unions (where applicable) through awareness programs & formal communication/interaction channels and development a formal knowledge management and learning frame work.

With regard to the environment, even though banks may have a limited impact as compared to the manufacturing industry, their business operations have scope for improvement in terms of consumption of resources. They occupy large office spaces, devour large amounts of paper, have significant transport and business travel and consume energy for their daily business operations.

Thus, banks working towards sustainability cannot be oblivious of the implied need for changes internally, through responsible resource consumption and optimization which will require setting of systems and processes towards tracking and monitoring performance regularly.

With regard to the social aspect, banking being a service industry, people becomes a very important asset which makes it essential for banks to invest, understand and map material topics associated with enabling workplaces which foster innovation driven growth.

b. Stakeholder Engagement

Employee groups tend to deliver their best when they are engaged with the purpose, vision and values of the bank. Similarly, to achieve sustainability goals, banks need to specifically engage with the Board and employees so that they are aware and align themselves to these goals. Buy-in from the Board helps in faster allocation of budgets and smoother implementation of initiatives and greater accountability from the staff handling this activity.

The banks were asked to select the nature of responsibility towards their key internal stakeholders namely – Employees, Board of the Bank and Employee Unions (wherever applicable).

The trend indicates that maximum Banks chose the nature of Responsibility as voluntary with respect to their employees and Board, while also acknowledging the ethical and legal nature of their relation specifically to their Board.

Communication was the most popular mode of engagement with major banks selecting it closely followed by partnership in case of employees and consultation in case of the Board of the Bank.

The banks were asked to select the topics of engagement with their employees with respect to environment and social aspects. The response trend indicates that the most popular topic is Awareness and Involvement in Internal Environmental Initiatives of the Bank, with 16 out of 20 banks focusing on it.

With reference to the Board of the Bank, the banks primarily engaged on the Internal Environmental initiatives of the Bank with 80% of the banks selecting this option and over 70% of the banks indicating Environment Policy pertaining to Products and Services of the Bank and Environment related Risks to the Bank, as the most important topics for engagement.

In case of social topics the trend indicates that 90% of the banks engage with their respective Board’s on CSR programs, with 75% banks also indicating engaging on topics – Products and Services to address inclusive growth and 80% indicating Donations made to charitable organizations.

On the social front, 90% of the banks have engaged with their employees on CSR programs, 85% on Employee satisfaction (e.g. well-being etc.), 80% on inclusive growth topics, over 61% engaged on Social Policy pertaining to operations and on Social Policy pertaining to products & services of the Bank.

With reference to employee unions, of the 13 participating banks having employee unions, 8 have indicated engaging on topics pertaining to Internal Environmental Initiatives of the Bank and 5 have indicated Awareness on Climate Change Issues and Environment Policy pertaining to operations.

With respect to social topics, 11 out of the 13 banks have indicated engaging with the employee unions on Employee satisfaction (e.g. well-being etc.) while 8 banks indicated engaging on CSR and Philanthropic Initiatives and Social Policy of the Bank.

c. Sustainability Initiatives

Environmental and Corporate Social Responsibility issues from a business perspective have both associated risks as well as opportunities in the context of banks. While it is essential for banks to map these in their product portfolios, efforts should also be taken towards integrating these aspects into the bank's core operational systems and processes. There is a need to implement deeper initiatives focused on governance, sustainability management, employee well-being, healthy workplaces and sustainable procurement models.
How is Sustainability driven within the banks?

<table>
<thead>
<tr>
<th>Sustainability Initiatives</th>
<th>Private</th>
<th>Public</th>
<th>Foreign</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dedicated Sustainability Department</td>
<td>Yes</td>
<td>No</td>
<td>Plan to In future</td>
</tr>
<tr>
<td>Environmental Performance pertaining to operations of the Bank</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Plan to set up formal system in the near future</td>
<td>Yes</td>
<td>No</td>
<td>Plan to In future</td>
</tr>
<tr>
<td>Consultants</td>
<td>Yes</td>
<td>No</td>
<td>Others</td>
</tr>
<tr>
<td>Local Supplier preference policy</td>
<td>Yes</td>
<td>No</td>
<td>Plan to In future</td>
</tr>
<tr>
<td>Performance Measurement and Feedback</td>
<td>Yes</td>
<td>No</td>
<td>Plan to In future</td>
</tr>
<tr>
<td>Work-life balance</td>
<td>Yes</td>
<td>No</td>
<td>Plan to In future</td>
</tr>
<tr>
<td>Innovation and Ideation pgms</td>
<td>Yes</td>
<td>No</td>
<td>Plan to In future</td>
</tr>
<tr>
<td>Employee Volunteering programs-CSR activities</td>
<td>Yes</td>
<td>No</td>
<td>Plan to In future</td>
</tr>
<tr>
<td>Employee mentoring to address corruption issues</td>
<td>Yes</td>
<td>No</td>
<td>Plan to In future</td>
</tr>
<tr>
<td>Career Development</td>
<td>Yes</td>
<td>No</td>
<td>Plan to In future</td>
</tr>
<tr>
<td>Employee health and wellbeing</td>
<td>Yes</td>
<td>No</td>
<td>Plan to In future</td>
</tr>
<tr>
<td>Spl. Committees to address discrimination issues</td>
<td>Yes</td>
<td>No</td>
<td>Plan to In future</td>
</tr>
<tr>
<td>Formal Redressal Mechanisms</td>
<td>Yes</td>
<td>No</td>
<td>Plan to In future</td>
</tr>
<tr>
<td>Local Hiring</td>
<td>Yes</td>
<td>No</td>
<td>Plan to In future</td>
</tr>
<tr>
<td>Balanced Male Female Ratio</td>
<td>Yes</td>
<td>No</td>
<td>Plan to In future</td>
</tr>
</tbody>
</table>
Banks were asked to provide details on their current preparedness and performance on some specific sustainability initiatives. The response trend indicates the below:

1. 75% of the banks have/plan to have a dedicated Sustainability Department with an average of 4 employees

2. 80% of the banks have/plan to establish formal data collection systems for mapping environment performance while 20% of banks have informal systems

3. 80% of the banks reiterate that their CSR program is defined such that it directly/indirectly has a reference to the business strategy/vision of the bank

4. Current preparedness and performance on some specific sustainability initiatives

5. Twelve out of 20 banks do not have any local supplier preference policy

With reference to employee initiatives - Career Development, Performance Measurement & Feedback, Employee health & wellbeing, and formal redressal mechanisms featured among the most common employee initiatives selected as apriority by the banks with over 50% of the banks indicating this in their top 3 employee aspects based on priority. Response received additionally indicate that diversity and local hiring aspects currently feature low on the banks sustainability agenda with Male-Female ratio, Special committees to address discrimination issues and Local Hiring initiatives being considered only by 25 - 30% of the respondents as a priority. Aspects pertaining to work life balance and Employee mentoring to address corruption

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**Current preparedness and performance on some specific sustainability initiatives**

**Employee Initiatives**

<table>
<thead>
<tr>
<th>Initiative</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Career Development</td>
<td>17%</td>
</tr>
<tr>
<td>Performance Measurement and Feedback</td>
<td>14%</td>
</tr>
<tr>
<td>Employee health and wellbeing</td>
<td>13%</td>
</tr>
<tr>
<td>Formal Redressal Mechanisms</td>
<td>10%</td>
</tr>
<tr>
<td>Innovation and Ideation pgms</td>
<td>7%</td>
</tr>
<tr>
<td>Spl. Committees to address discrimination issues</td>
<td>7%</td>
</tr>
<tr>
<td>Employee Volunteering programs - CSR activities</td>
<td>6%</td>
</tr>
<tr>
<td>Balance Male Femal Ratio</td>
<td>5%</td>
</tr>
<tr>
<td>Local Hiring</td>
<td>4%</td>
</tr>
<tr>
<td>Employee mentoring to address corruption issues</td>
<td>0%</td>
</tr>
<tr>
<td>Work-life balance</td>
<td>6%</td>
</tr>
</tbody>
</table>

**d. Awareness and Communication**

<table>
<thead>
<tr>
<th>Mode of Communication</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee Volunteering</td>
<td>19</td>
</tr>
<tr>
<td>Employee Awareness Programs</td>
<td>18</td>
</tr>
<tr>
<td>Intranet and Mailers</td>
<td>20</td>
</tr>
<tr>
<td>News Letters for Employees</td>
<td>20</td>
</tr>
</tbody>
</table>
indicates that 65% of the banks communicate both on environment and social aspects using these channels.

**e. Targets: Employee Training & Environment Impact Management initiatives**

**Employee Training**

For banks to mainstream sustainability it is essential that their employees are better equipped to understand sustainable banking, social and environmental risk management and explore sustainability-related business opportunities.

In this regard, banks were asked to select targets and goals specific to incorporating sustainability (both social and environmental aspects) into the training and skill development program for their employees. The responses received indicate that this aspect is still in an incipient stage with only around 30% of banks indicating of attempts and plans to implement it.

**Environment Impact Management**

**Energy Efficiency:**

Energy consumption is one of the important components of the direct environmental impact of banks. Banks globally have taken varied steps to reduce consumption or procure energy from renewable sources. Many banks also recognize these initiatives as a means to achieve cost cutting and resource optimization (a good business case and driver).

The banks were asked to select the environment initiatives/targets taken for achieving energy efficiency and also details on the responsibility and accountability for the success of the initiatives.

The trend indicates that 35% of the banks have already implemented internal environmental initiatives to achieve energy efficiency, with only one public sector bank featuring in this list. The other 35% indicated this as a short and medium term goal. 12 out of 18 banks opined that these initiatives are driven by the banks senior management.

**Measurement of Paper and Carbon Footprint:**

The banking sector consumes significant energy and paper for its operations. For banks to be able to identify hotspots of energy and paper consumption, it is essential for the bank to map its paper and carbon footprint.

The banks were asked to select goals and define the strategy with respect to implementing systems and processes to measure paper and carbon footprint. The trend indicates that only two banks currently measure paper and carbon footprint (a Private sector and a Foreign bank). But interestingly, there were also four banks (three public sector and one foreign bank) who indicated the same as not part of their strategy. This mixed response is indicative of the lack of compliance/regulatory requirement and also lack of clarity/established business case for mainstreaming environment considerations in operations.

**Measuring Paper and Carbon Footprint**

**f. Challenges**

Mainstreaming sustainability in the business operations of banks requires the establishment and support of internal systems and process for tracking, planning and managing sustainability performance and driving the necessary changes towards improved performance.

In this regard, the banks were asked to select the operational challenges associated with NFR.

The trend indicates the challenges associated with data management as the most common challenge for reporting on both environmental and social aspects, with 80% banks selecting inaccuracy/unavailability of environment data and 70% perceiving inaccuracy/unavailability of social performance
(impact analysis) as one of the key challenges. It is interesting to note that one of the private sector banks also commented on the availability of data but perceived it as not adequate to meet NFR requirements.

50% of the banks indicated lack of formal documentation of strategies and Policies pertaining to both environmental and social aspects while 40% of the banks also included lack of awareness as one of their challenges.

**What are the key challenges faced while mainstreaming sustainability within the bank**

**Key Challenges**

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VII. The Way Forward

Based on the results of this study, following are the changes or issues that need to be addressed to help in mainstreaming sustainability amongst banks in India.

1. Definition and clarity of Sustainability from a finance perspective

**ISSUE TO BE ADDRESSED:** As per the survey, a key issue faced by banks, is lack of clarity with regard to the definition of sustainability from a finance perspective. They are uncertain about,

- A bank’s key focus areas
- Ideal goals, targets and key performance indicators
- A strong business case to incorporate environmental and social issues along with clear bottom line benefits

It is recommended that RBI should,

- Document and disseminate a clear definition of Sustainability, which is meaningful for the finance sector. This circular should describe key focus areas for influencing financial flows towards sustainable development.
- Define and drive major social and environmental issues for Indian Banks to focus on in the short and medium term, which can be addressed through innovative financing mechanisms.

2. Sustainable Banking in India- Key Actors and their Roles

**ISSUE TO BE ADDRESSED:** Lack of regulation from the central bank and other regulatory bodies is expressed as the primary gap towards adopting sustainability.

It is recommended that RBI should:

Constitute a formal Sustainability Panel/ Steering Committee towards driving sustainable banking in India. This body should contain representation from regulators, such as Reserve Bank of India (RBI), Securities and Exchange Board of India (SEBI), Ministry of Finance, Ministry of Environment & Forests (MoEF) and Ministry of Corporate Affairs (MCA). Apex bodies like National Bank for Agriculture and Rural Development (NABARD) and Indian Banks’ Association (IBA), as well as stock exchanges (BSE & NSE), academic and NGOs should also have representation along with major Indian banks.

The aim of the Group is to drive and support engagement of its members towards catalyzing the development of innovative financing mechanisms (IFM) to promote sustainable development. The group should actively develop policies to

- contribute to institutional capacity building within banks
- stimulate exchange of information and sharing of best practices among banks and
- stimulate the establishment of environmental and social governance within the banks’ core business models

3. Priority Sector Lending – Expanding the scope to include new sectors

**ISSUE TO BE ADDRESSED:** When asked to respond to opportunities and risks associated with climate change and the environment, a common concern observed, is that without a clear mandate, banks are hesitant to invest resources towards understanding and deriving the benefits from these sectors.

It is recommended that RBI should facilitate the development of a Sustainability Reporting framework, (or customize existing GRI guidelines to the Indian context)

Include new areas as priority sectors for lending such as,

- Clean technology (at a macro level)
- Solutions for improving energy access
- Green and energy efficient buildings
- Projects related to sustainable sourcing for agricultural commodities, fisheries, forestry and mining products

These sectors play a major role in addressing economic dependence on fossil fuels and unsustainable exploitation of natural resources by industry and agriculture. Moreover, they generate employment and provide opportunity for equitable development by facilitating energy access.

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2Research Study Steering Committee Member Organizations are: IIM Bangalore, WWF India, GRI Focal Point India, British High Commission and NextGen PMS Pvt. Ltd.

An innovative financing mechanism (IFM) can refer to an institutional arrangement that results in the transfer of new or increased financial resources from those willing to pay for sustainably produced goods/services, to those willing to provide these goods and services in turn.
4. Facilitating more meaningful CSR activity among Indian banks

ISSUE TO BE ADDRESSED: Banks claim that they require support primarily in
• Identification of key focus areas for philanthropic activities
• Implementation of these initiatives through defined management systems
• Identification of credible partners to roll out initiatives in defined locations

It is recommended that RBI should provide guidance on the following:
• Indicate appropriate CSR spend and focus areas for social projects by region
• Facilitate development of administrative guidelines for CSR projects carried out by Indian banks
• Facilitate identification, enlisting and rating of credible partners with whom banks can engage on CSR projects
• Facilitate development of guidelines for impact measurement, monitoring & evaluation and auditing of these projects
• Facilitate guidelines for rating projects as small, medium & large
• Facilitate support options for banks (through state/central government partnerships) towards addressing constraints in implementing large CSR projects

5. Measuring, Benchmarking and Recognition

ISSUE TO BE ADDRESSED: Many banks expressed lack of clarity on tangible and intangible benefits from adopting sustainability as a challenge.

It is recommended that RBI should,
• Structure a rating system for banks operating in India on sustainability through defined metrics and parameters encompassing both aspects pertaining to internal operations and products and services offered (addressing opportunities and risks)
• Banks also need to be recognized for unique efforts and achievements in the sustainability space through Sustainability Awards

6. Communication and Reporting & Disclosures:

ISSUE TO BE ADDRESSED: Most banks have stated with regard to NFR, that they find the Reporting frameworks complex and not directly relevant to their operations

It is recommended that RBI should, Facilitate the development of a Sustainability Reporting framework, (or customize existing GRI guidelines to the Indian context) exclusively to support meaningful and relevant reporting by the Banking and Financial Sector in India.

7. Facilitating greater environmental performance measures within the banking business

ISSUE TO BE ADDRESSED: While many Indian banks consider the social aspects of sustainability as an important part of their responsibility and have already implemented several projects in that area, reducing their impact on the environment through internal operations, as well as financing is still not given as much importance.

It is recommended that RBI should,
• Drive and encourage Indian banks to develop a risk management and assessment framework focusing on sensitive sectors/projects having a significant environmental and social impact, as well as those that are susceptible to physical risks of climate change and its consequences
• Facilitate the incorporation of environmental and social issues in investments and asset management, as well as encourage Indian banks to sign up to sustainability frameworks, such as Carbon Disclosure Project, UNEP FI and UNPRI etc.
• Provide banks with formal guidance and documentation on internal environmental standards to encourage or even mandate ecological footprint assessment and management
VIII. Research Study Partners

IIM Bangalore

Established in 1973, the Institute has since then built on its base of highly accomplished faculty, world class infrastructure and motivated student body to emerge as one of the premier institutes for management education and research promoting managerial excellence in the country. IIMB strives to achieve excellence through partnerships with industry, and leading academic institutions, the world over. IIMB’s mission is to “build leaders through holistic, transformative and innovative education.”

GRI Focal Point India

The Global Reporting Initiative (GRI) is a non-profit organization that promotes economic, environmental and social sustainability. GRI works towards a sustainable global economy by providing organizational reporting guidance. GRI’s Sustainability Reporting Framework enables all companies and organizations to measure and report their sustainability performance. The Focal Point India was established in January 2010, as a result of GRI’s strategic alliance with the German Gesellschaft für Technische Zusammenarbeit (GTZ, currently GIZ). The GRI Focal Point India provides guidance and support to local organizations, driving GRI’s mission to make sustainability reporting a standard practice.

WWF India

WWF-India was registered in 1969 as a Charitable Public Trust, with the express objective of ensuring the conservation of the country’s wildlife and wild habitats. A part of WWF International, the organization has made its presence felt through a sustained effort not only towards nature and wildlife conservation, but sensitizing people by creating awareness through capacity building and enviro-legal activism. A challenging, constructive, science-based organization WWF-India addresses issues like the survival of species and habitats, climate change and environmental education and works actively with businesses and industry to push forward a sustainability agenda.

British High Commission

The British High Commission in India works to enhance the India-UK ties. British High Commission’s work on the knowledge economy is a cross-cutting effort to help ensure coherent engagement with India on economic and trade policy, science and innovation, education, and research; and to ensure that all involved realize the benefits of that engagement.

NextGen – The Energy & Environment Company

NextGen, previously incubated at NSRCEL, IIM-Bangalore operates in two major domains - Sustainability & Emission Management and Waste to Energy. NextGen currently works in 14 sectors (aviation, FMCG, finance, telecom etc.) with more than 40 active customers of which 25% are Fortune 500 companies. NextGen has developed India’s first and only Enterprise-wide Sustainability & Emission Management IT Tool jointly with MindTree Ltd. NextGen is the first and only accredited consultancy partner of CDP in India and also an organizational stake holder of GRI. NextGen has operations in India, Sri Lanka, Maldives and U.A.E.
IX. Acknowledgement

This report is the result of valuable contributions and insights of a large number of banks that responded to the research study survey.

Our foremost thanks go to the below mentioned participating banks:


We would like to convey our special thanks to the Chairpersons, CEOs, EDs, MDs and Senior Executives of these banks who participated in the interactions and responded to the survey questionnaire. Their insights have helped us develop and present a comprehensive understanding of the preparedness for Non-Financial Reporting of Banks in India.

We would also like to thank the members of the research study steering committee and our colleagues who have helped us in carrying out this research.