WHITE PAPER

Rethinking Corporate Social Responsibility (CSR) in Financial Services

Making business sense of sustainable CSR

Infosys | Building Tomorrow’s Enterprise
The Sustainability Imperative of CSR

Corporate social responsibility (CSR) is increasingly becoming a major part of the business agenda for financial institutions (FIs). Financial service companies acknowledge that ‘what’s beneficial to society can profit the business.’ In this white paper, our experts make a business case for CSR in financial services. We believe that financial firms must embrace sustainable CSR via sustainable business practices to retain their competitive advantage.

In today’s business environment, CSR programs are financed by shrinking budgets that are allocated by companies. CSR cannot be ad hoc and subject to tokenism. Your company’s CSR policy must be as sustainable as its business model. Financial service companies must drive socio-economic and environmental change through product innovation and sustainable business solutions.

“In a truly great company, profits and cash flow become like blood and water to a healthy body: they are absolutely essential for life but they are not the very point of life.”

–Jim Collins, author of ‘Good to Great’
Areas of Interest in CSR

Banks are reducing the environmental footprint of their business operations by minimizing emissions while cutting costs. There is widespread use of paperless statements, electronic payments, as well as carbon-neutral buildings and tele-presence.

Energy conservation

The financial services sector is facilitating the transition to a low-carbon economy. By financing green innovation and infrastructure development, FIs are exploring new avenues of growth.

Environment

Donation and sponsorship

FIs promote sports and educational events, exhibitions of art and culture, disaster relief programs, etc. Given the budgetary constraints from year-to-year, this area has its limitations.

Emerging markets

Western and domestic banks are discovering new linkages between business success and social development in emerging markets. These firms are facilitating economic development through credit provisioning and microfinance initiatives.

Education

FIs partner with non-governmental organizations (NGOs) that educate children from underprivileged communities. They also provide vocational training and essential money management skills to the youth.

Healthcare

FIs support healthcare of the underprivileged by providing financing and insurance solutions. Banks partner with NGOs to conduct healthcare awareness programs and free medical service camps.
Financial institutions (FIs) operate in a dynamic business environment, where budget cuts are the norm. Consequently, FIs face challenges in their effort to make CSR sustainable.

**Absence of a framework**
Financial institutions undertake CSR activities without a framework for benchmarking CSR. The actual value of CSR cannot be quantified due to the lack of best practices.

**Competition**
Financial institutions operate in a competitive environment. Contributing to one-time CSR activity is often limited by budgetary constraints and the bottom line.

**Financial regulations**
Dynamic regulations demand that maximum spending goes toward regulatory compliance. For a sustainable business, FIs must partner with governments to shape regulation through joint working groups, and engage with stakeholders for collaborative approaches for development and local infrastructure.

**Demanding customers**
Customers seek sustainable products and services. Financial institutions need to create favorable market conditions and a conducive business environment. FIs must identify opportunities for new products and services created by sustainable CSR such as financing of low-carbon infrastructure and ‘green’ technologies.

**Downsizing**
In an uncertain business environment, financial institutions are downsizing. CSR may not prevent downsizing, but companies can make an effort to downsize in a responsible manner.

**Right metrics**
CSR metrics such as energy consumption, water usage, and CO2 output accurately reflect a firm’s sustainability activities. However, prioritizing projects by internal and external stakeholders, and identifying the CSR projects that have maximum impact is challenging.

**People**
Sustainable CSR requires an intimate understanding of how individuals take decisions about environmental and social issues. The primary challenge is to attract and incentivize employees who drive CSR programs.

**Government policies**
Financial institutions must have an in-depth understanding of public policy to address issues of sustainable CSR. For instance, if a company policy on waste management conflicts with the policy on energy consumption, the company has to adopt a policy that provides the maximum benefit to society.

**Business case**
Putting a dollar value on sustainable business operations such as brand name and customer loyalty can be a challenge for a majority of organizations. Moreover, Wall Street does not embed CSR in the valuation of a company.
Sustainability: Good for Society, Even Better for Business

Financial institutions can implement sustainable CSR initiatives by aligning CSR with the business strategy through a well-defined business case. For instance, responsible retail consumer product companies contribute a percentage of their product price to CSR activities. When customers are incentivized to buy products more often, they boost the CSR efforts of the company. Responsible companies need to develop a framework that makes CSR sustainable seamlessly by leveraging capabilities and enhancing the competitive advantage of the company.
Payback of Sustainable CSR

*Source: Study by ‘Global Alliance for Banking on Values*

CSR has yielded significant benefits to society such as community welfare, economic development, and environment protection. In addition, financial institutions have realized intangible benefits, as shown in Figure 1.

Figure 1: Benefits of sustainable CSR

Enhances brand equity
Builds trust and confidence
Improves financial performance
Increases business growth

Financial institutions can boost their brand image through CSR activities. Responsible companies face far lesser scrutiny from regulatory authorities.

In an uncertain business environment, CSR activities help financial institutions rebuild trust and relationships with different stakeholders.

CSR activities can directly contribute to the bottom line. According to a study commissioned by the Global Alliance for Banking on Values (GABV)*, values-based banks deliver higher financial returns. Responsible banks outperform traditional banks across financial indices such as return on assets, growth in loans and deposits, and capital strength – a compelling case for values-based banking.

There is a correlation between CSR activities and business growth. Prospects of a business increase when CSR is aligned with business. It could be due to the brand loyalty of customers.

DNA of sustainable CSR

Forensic audit: Financial institutions must evaluate its portfolio and do a comprehensive audit of the direct / indirect environmental and social impact of operations in retail and commercial banking, asset management services, investment banking, private banking, etc.

Products, processes, and people: The 3-P’s are important components of sustainable CSR. Solutions must be customized for each component.

Impact: Financial institutions must measure and monitor the impact of their CSR activities. Business metrics such as revenue growth, cost savings, reputation, and risks must be analyzed. Moreover, companies must inform investors about the impact of CSR activities.

Innovation: CSR cannot be sustainable without innovation. Technical innovation may result in new products and processing techniques. Financial innovation is imperative to launch new products.

CSR office: A dedicated team of CSR executives must be backed by the senior leadership of the company to implement the CSR strategy and deliver results.

CSR strategy: The starting point of sustainable CSR is devising a holistic CSR strategy. CSR must be aligned with the business strategy of the company.

Sustainability reporting: CSR can be sustainable when there is mandatory reporting of CSR activities and visibility for all stakeholders.

Stakeholders: The specifics of a CSR strategy, such as investments, and the tangible and intangible benefits must be articulated to stakeholders. A CSR strategy must have buy-in from key stakeholders.
The 3-P’s of Sustainable CSR

The 3-P approach (people, products, processes) to drive sustainable CSR is illustrated in Figure 2.

**People**
- Recognition
- Benefits
- Policies

**Process**
- Inter-relationship
- Technology
- Reporting

**Products**
- Customized products
- Dedicated products
- Integrated products

CSR can become sustainable when people are involved in the CSR agenda, the CSR policy is clearly defined and communicated to constituents, and employees are recognized and honored for excelling in CSR activities.

**Benefits**
- Employees can earn points for CSR activities – they can redeem these points for financial products such as discounts on the home loan interest rate, insurance premiums, etc.
- Customers and investors can earn reward points for e-statements and purchasing green / energy efficient products

**Recognition**
- A reward and recognition (R&R) system can be instituted to recognize employees who actively participate in CSR activities
- CSR initiatives of employees showcased in a monthly or quarterly magazine will serve as role models

**Policies**
- Employee-friendly policies such as telecommuting for physically challenged employees or working mothers and environment-friendly transport policies such as carpooling boosts the morale of employees
Financial institutions can be innovative in their offerings while adopting a cause. Companies can explore several variations such as customized products, dedicated products, and integrated products.

**Inter-relationship**

- Fls can identify new revenue streams and create business verticals with domain experts to develop sustainable business solutions across the sustainability spectrum. The collaboration between units in a company can offer new services in agricultural/rural banking, microfinance institutions, sustainable investment banking, inclusive and social banking, and socially responsible investing.

- Synergies of different lines of business can be leveraged to offer CSR to a wider audience.

**Technology**

- **Green building:** Financial institutions can adopt Leadership in Energy and Environmental Design (LEED) standards and apply for LEED certification.

- **Green IT:** Companies can use virtual servers, the cloud, and energy-efficient IT platforms while upgrading their IT infrastructure and consolidating printers.

- **SMAC**
  - **Social media:** A CSR initiative can be promoted over social media.
  - **Mobility:** E-statements can be transmitted to mobile devices.
  - **Analytics:** Tools can identify the right customer segments to personalize CSR activities.
  - **Cloud:** Value-added services can be delivered using the cloud, apart from HR functions, back-end processing, and other administrative tasks.

- **Energy audits:** Banks can undertake energy audits for existing technologies and explore new initiatives that are far more effective.

**Reporting**

- **Transparency in reporting financial and operational activities to different stakeholders**

- **Monitoring carbon emissions and footprints, and reporting to different forums**

- **Become a signatory to international sustainability projects such as the Carbon Disclosure Project**
Financial institutions can be innovative in their offerings while adopting a cause. Companies can explore several variations such as customized products, dedicated products, and integrated products.

**Dedicated products**
- Products that contribute to a cause viz. environment, health or education
- Targeted lending to low-income families, minorities, women, immigrants, small businesses, community non-profit agencies, and sustainability-related organizations
- Accredited small and medium enterprise (SME) customers can receive special offers on products and services to reduce the ecological impact. Business loans with preferential interest rates can be offered to customers who are granted ISO 14001 or equivalent environmental certification
- Innovative products such as energy efficiency mortgage, green lending, insurance, etc
- Cause-driven products to help customers adopt energy-efficient solutions

**Customized products**
- Discounted mortgage: Attractive mortgage rates can be offered as an incentive to install energy saving technologies in homes and offices
- Products / services:
  - Education: Products that impart education directly or indirectly such as teaching customers / prospective customers on basic financial literacy or games for children to inculcate money management skills
  - Health: Products that support financing expensive health treatment such as EMI facilities for the treatment of cancer and cardiac surgery
  - Environment: Insurance products that offer cover based on their ecological impact. Premiums for auto insurance can be based on a vehicle’s emissions. It motivates drivers to reduce emission levels
- Carbon risk analysis: Lending arms of commercial banking can continuously perform carbon risk analysis for potential carbon legislation before lending

**Integrated products**
- FIs can combine CSR areas and offer integrated products rather than contributing to one cause
- A customer of an environment-friendly product can gain a discount on health insurance for parents. An interrelated environment, health and education model is sustainable since it is aligned with business growth
- Banks can explore carbon finance in emerging markets. FIs can partially finance the carbon emission reductions (CERs) model for energy conservation through carbon credits. Each CER amounts to the reduction of one ton of CO₂ emission. CERs can be sold to organizations that have emission reduction obligations under mandatory cap-and-trade programs such as the EU Emissions Trading Scheme and the Australian Carbon Pricing Mechanism
A Road Map for Sustainable CSR

1. Identify the maturity level of CSR activities – from reactive to proactive level
2. Get commitments from key stakeholders – buy-in from senior leadership is imperative
3. CSR must be aligned with business strategy, and the CSR strategy must clearly define CSR objectives, milestones, and payback
4. CSR strategy must adopt the 3-P approach illustrated in Figure 2
   - Engage all stakeholders (investors, lenders, employees, unions, customers/users, supply chain, joint venture/partners, alliances, local communities, governments, and regulatory authorities) and open a channel of communication
5. Implement CSR across lines of business
6. Define metrics for measuring CSR payback
7. Undertake audit based on performance metrics and institute controls to remedy gaps
A Sustainable Business Begins with CSR

Financial institutions must realize that CSR is an intrinsic part of a sustainable business. CSR needs to be embedded into every aspect of business, including product design, innovation, operations, supply chain, and marketing. Financial institutions must integrate CSR with their core strategy, product design, mission, and company policy.

An effective CSR strategy should be well-formulated, articulated, and aligned with business. It must also have the unstinting support of key stakeholders to become a long-term sustainability agenda.
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