

Rabobank - Case Study

Background

The Rabobank Group is the largest financial service provider in the Netherlands. It comprises 369 independent local Rabobanks, which together form the supra-local co-operative organisation known as the Rabobank Nederland. This agency advises the banks and supports their services as well as supervising the local banks on behalf of the Dutch Central Bank.

The group has 9 million clients of which 825,000 are members. It has a large number of specialised businesses involved in asset management, insurance, leasing, private banking, equity participation, corporate and investment banking, real estate development and project financing.

The Rabobank serves more than half the population and businesses in the Netherlands. It is market leader for virtually all financial services (eg. mortgages - 23%; private savings - 40%; agricultural market - 87% of all lending). It employs 52,000 (full-time equivalent) people, has total assets of about EUR 370,000 million, and operates 1,648 branches in the Netherlands and 222 abroad.

Rabobank's roots lie in agriculture. What began at the end of the nineteenth century as a collection of small rural banks, has grown into an extensive financial group.

Today Rabobank is owned by approximately 328 local banks which provide financial services and products to the Dutch retail and business markets.

The collection of these banks, together with Rabobank Nederland and a number of subsidiaries, form Rabobank Group and give it the ability to provide all types of financial services.

In its Dutch home market, Rabobank Group has 1.3 million members, nine million business and private customers and is market leader in virtually every area of financial services. Outside the Netherlands, the group has 222 offices, employing a total of 6,532 people in 34 countries.

Consistently being awarded an AAA credit rating from the leading rating agencies, the Bank's stability is further evidenced by it being named among the Top 5 World's Safest Banks by Global Finance magazine in 2001, 2002, and again in 2003.

Sustainable development policy

The Rabobank Group was founded as a credit co-operative providing financial services mainly in the agricultural sector. Its co-operative or mutual principles are its main driver. It aims *'to create opportunities for individuals and organisations to participate fully and independently in economic activities'*. The group also believes sustainable growth in prosperity and well being requires careful nurturing of natural resources and the living environment. It states it *'respects the culture and traditions of the countries where it operates, insofar as these do not conflict with (its) own objectives and values'*.

The bank's annual responsibility and sustainability report 2002 claims: *'It goes without saying that corporate social responsibility is in line with the co-operative views of the Rabobank Group. For more than a century now, the interests of our clients has been our point of departure and our goal. The group feels that sustainable entrepreneurship is synonymous with corporate social responsibility'*.

Other excerpts:

*'CSR is certainly not a **whim** of the day, but the **order** of the day'*.

'CSR offers businesses the key to future markets and tomorrow's prosperity. Businesses that refuse to take this key will alienate themselves from both their customers and their employees, and in due course will be doomed to perish'.

Drivers for the policy

The Bank believes that sustainable development is consistent with the goals of entrepreneurs to maximise the value of their business. It shares this view with the World Business Council for Sustainable Development, the United Nations Environmental Programme and a large number of multi nationals. The Bank argues that a sound sustainability policy adds value internally:

- a motivated workforce which is focused more on the strategic target
- more pulling power with regard to talent
- important change and innovation potential
- more effective risk management
- better management

and externally:

- improved reputation
- increased brand value
- increased access to the capital market
- increased customer loyalty
- increased market share
- new products and services

Sustainable development in practice

The policy is implemented through an extensive and ambitious range of activities inside and outside of the organisation. In 2001 its *Annual Sustainability Report 2000* won several major national awards including *'Best Dutch Language Social Report'*.

The report is externally verified by the Swiss Sustainable Asset Management (SAM) Bureau. Ultimate responsibility for the sustainability policy is with the chairman of the Executive Board. Some of the key elements of the bank's implementation processes are set out below.

- In 2003 provided more than EUR 400 million in new green loans, meaning growth was the same as in 2002. In addition, EUR 540 million in funds was raised, partly for the refinancing of previous green bonds that were maturing.
- Also in 2003 introduced new guidelines on the ecological and social sustainability of palm oil plantations to its lending manual to supplement other, specific cases where information is already available. This information is used to inform lending decisions.
- Despite the march of technology in recent years, with customers increasingly using cash machines and the internet to conduct their banking, Rabobank maintains its commitment to access to its accounts. This it does in a number of ways, which include mobile banking units which visit remote communities and by providing its Care Service in homes for the elderly.
- Sustainability of nine purchasing groups reviewed and criteria for sourcing developed. A further thirty groups have been identified for review.
- It is a major purchaser of green energy – with 25per cent of the local banks, Rabobank Netherland, De Lage Landen, Robeco and Interpolis electricity obtained from green sources. From 1 January 2005 all electricity will come from green sources.
- Piloting of CSR project with local banks to firmly embed it as a priority in business operations was a success in 2003. All reporting group units now receive a CSR report, comparing their performance to that of other group units.
- Established a Sustainability and Social Innovation Directorate.

- Developed a set of internal and external social performance indicators, based on Global Reporting Initiative.
- Works with other international players such as Credit Suisse Group, the Deutsche Bank, Swiss Re, The Co-operative Bank (UK).
- Developed a sustainability indicator for use among 203 local branches
- Has a firmly established ethics committee.
- Externally assesses its performance, based on a Sustainability Cluster Score – in environmental, social and financial terms.
- Emphasises a sound and healthy working climate, based on human resources policy and occupational health and safety. It has its own collective labour agreement which offers opportunities for a high level of customisation.
- In consultation with Amnesty International has drawn up its own code of conduct on Human Rights - this came into force in 2002.
- In 2001 it financed its 1000th green project - it funds approximately 50% of all green projects mainly in agriculture and nature conservation
- International loans checked against sustainability criteria.
- Over 50% of its private banking and trust assets are invested in funds which are also incorporated in the Dow Jones Sustainability Group index.
- Has developed a range of new financial products covering sickness, absenteeism, and pensions as well as savings schemes for leave.
- Has developed a co-operative micro-insurance scheme for people living in rural areas in developing countries to insure against death and invalidity - 2 programmes have been established in Sri Lanka and the Philippines.

Business Costs & Benefits

Net profits have increased year on year from EUR 865 million in 1997 to EUR 1403 million in 2003. This consistent increase in profits, the AAA credit rating the group enjoys, and its rank as one of the world's Top 5 Safest Banks as rated by Global Finance Magazine, prove it is possible to have ethical considerations at the core of a business and still be a profitable and growing one.

To confirm this, Rabobank Group's performance was independently assessed on the basis of sustainability by Zurich-based Sustainable Asset Management agency (SAM). The agency stated that the group's policy on corporate social responsibility leads the way internationally and it was awarded a sustainability rating of 74% of the maximum. This is an increase of 10 per cent since 2001, the highest score in Europe and second highest in the world.

Rabobank is of the opinion that investors are increasingly persuaded to make choices on the basis of sustainability ratings, which offer additional information on the risk profile of a company. Rabobank's bonds are a unique investment from that point of view, combining a Triple A credit rating with a top score on sustainability in the regard to the Triple P (a balanced policy focused on 'people, planet, profit').

Achievements

In 2003 the group won the International United Nations prize, the Royal Sustainability Award 2003, for the financial sector. This confirmed Sustainable Asset Management (SAM)'s assessment that Rabobank's policy on CSR leads the way at an international level.

The Rabobank Foundation received EUR 2.5million – a record sum and 14 per cent more than 2002 - from profits made by local banks. Rabobank Netherland matched this sum as it always does. The money will be allocated to development projects – on average 150 per year – in the Netherlands, Asia, Africa and Eastern Europe. This income, combined with that from interest, means the Foundation has EUR 6.3 million at its disposal in 2003.

In 2003 Interpolis, the insurance arm of the group, devoted a great deal of resource to the implementation of the Code of Conduct for Insurers. This brings CSR closer to the existing core of its processes. Unique products developed by Interpolis in 2003 include a funeral

policy for the mentally handicapped and hepatitis B cover in the field of occupational disability insurance for medical practitioners.

Rabobank helped farmers that fell victim to the fowl pest by adjusting their credit terms, often arranging bridging loans or payment deferrals. A task force was set up to deal with customers' initial financial problems as effectively as possible, as the Bank realised this was already a distressing situation for the many people affected. The key notes here were speed and decisiveness on the part of the bank. Rabobank has set out its views on intensive farming and the link to disease epidemics.

Rabobank joined the World Wildlife Fund and a number of firms in the agricultural sector in Geneva for a round table on sustainable palm oil, which aims to promote the sustainable production of palm oil but setting a good example. Rabobank was one of the driving forces behind this initiative.

Rabobank International was also one of the 11 leading banks to endorse the Equator Principals. These are social and economic guidelines for financing projects worth more than USD 50 million in developing countries. These guidelines contribute not only to further sustainable development worldwide, but also to better management of the credit risks associated with such major projects.

The Future

- A target of EUR 2 billion has been set for resources for green financing in 2004. The Bank also wants to develop new products for financing sustainable innovations and continue the incorporation of social and environmental criteria in the loan assessment system. A key target for 2004 is the improvement or extension of the number of products and services geared to sustainability.
- The Bank intends to extend its sustainability research to include bonds and to develop a range of products aimed at new target groups, such as green internet savings accounts.
- Money Meets Ideas is an initiative that is intended to bring together entrepreneurs and financiers. The scheme will be implemented from 2004.
- From 2005 onwards the group aims for 100 per cent of electricity to come from green sources.
- Interpolis is setting up its own ethics committee and developing special workshops and ethics-based games for employees.
- The leasing arm of the group, De Lage Landen, is to put CSR higher on its agenda.
- Launching a platform for trading CO₂ rights, as has previously been done with NO_x, is also a priority for 2004.
- The group will continue to advocate an administrative agency for soil decontamination. Changes in the law will mean that soil decontamination becomes primarily a problem for the owners and leasers of industrial sites, rather than those who caused the pollution. Discussions took place throughout 2003, in which Rabobank participated, particularly focused on the issue in the SME sector. Rabobank will continue this dialogue throughout 2004.
- The group has chosen its priorities on the basis of developments in society, recommendations by sustainable rating agency SAM, the verification by KPMG Sustainability BV of the annual responsibility and sustainability report for 2002 and the wishes of shareholders.

Further information

www.rabobankgroep.nl/sustainability