

Benchmarking Financial Institutions' Communication on Human Rights

The Geneva Center for Business and Human Rights
GSEM (UNIGE)
Switzerland



**UNIVERSITÉ
DE GENÈVE**

GENEVA SCHOOL OF ECONOMICS
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Report by the Geneva Center for Business and Human Rights (GCBHR), GSEM, University of Geneva
Project lead: Dr. Lilach Trabelsi
Interns (in alphabetical order): Petter Jimmy August Borgstrand, Ionela Cechina, and Ekaterina Frolenkova

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Introduction

Financial institutions play a key role in driving global sustainability.¹ They are also increasingly committed to a sustainable finance agenda. At a global level, in 2019, UNEP's Finance Initiative launched the Principles for Responsible Banking, highlighting the role that financial institutions are expected to play to advance responsible business. Beyond general initiatives, there are growing expectations in Europe for financial institutions to act more responsibly, as can be seen via the European Commission's Action Plan from 2018. This Action Plan promotes, for example, the introduction of ESG integration disclosure obligations, and the inclusion of ESG factors into advisory services provided by financial institutions.² In Switzerland, the Federal Council highlighted in June 2020 the opportunities related to further developing the sustainable finance agenda and its importance for the competitiveness of the Swiss finance industry.³

Currently, sustainability in the sustainable finance context refers almost exclusively to environmental concerns. Yet, the expectations that financial institutions address both environmental and social issues are growing. This can be seen in new initiatives such as the Liechtenstein Initiative that requires banks to look into suspicious financial patterns that could indicate human trafficking. This initiative complements the work of the Thun Group of Banks, whose members started working on developing human rights standards for financial institutions already over a decade ago. Furthermore, discussions on additional mandatory human rights due diligence are ongoing in several EU member states. France already has a legal requirement for mandatory human rights due diligence; in Switzerland a legal requirement was rejected in November 2020 but the strong popular support of the Swiss Responsible Business Initiative indicates that engaging in substantive human rights

1 OECD (2019), Due diligence for responsible corporate lending and securities underwriting: Key considerations for banks implementing the OECD Guidelines for Multinational Enterprises

2 <https://www.unpri.org/sustainable-financial-system/explaining-the-eu-action-plan-for-financing-sustainable-growth/3000.article>

3 Available at: <https://www.admin.ch/gov/en/start/documentation/media-releases.msg-id-79606.html>

Introduction

due diligence is widely expected from any company. However, in spite of growing expectations, the definition of the 'S' in 'ESG' remains vague or limited with respect to what is being measured, and the measurement of social aspects of company performance lags behind that of other elements of 'ESG'.⁴

In this report, we focus on financial institutions in Switzerland, and examine how key Swiss financial institutions have chosen to communicate about their human-rights-related efforts and activities. To do so, we developed a human rights benchmark for the Swiss finance industry assessing financial institutions' communication on human rights.

The project started with a partnership between the Geneva Center for Business and Human Rights and the Law School of the University of Sydney, which is a strategic partner university of the University of Geneva. Dr. Kym Sheehan and Prof. David Kinley from the University of Sydney's Law School had already developed a benchmark called the Financial Services Human Rights Benchmark (FSHRB). We used the benchmarking tool from the

Australian context and adapted it to the Swiss context. The development of the benchmark provides an opportunity to begin to understand the status of human rights in the Swiss finance industry, highlighting areas of strong performance as well as areas that can be ameliorated.

This report includes aggregated findings from a detailed analysis of publicly available data relating to human rights that has been communicated for the year 2018 by five prominent Swiss banks – UBS, Credit Suisse, Lombard Odier, Pictet, and Edmond de Rothschild. In addition, RepRisk data for the years 2018 and 2019 was obtained and compared to our findings.⁵ The analysis described in this report is seen as the first step in mapping out the approach of financial institutions in Switzerland to human rights, keeping in mind that the analysis is based primarily on data that has been publicly communicated by the financial institutions.



4 NYU Stern Center for Business and Human Rights (2017) Putting the "S" in ESG: Measuring Human Rights Performance for Investors

5 <https://www.reprisk.com/>

Methodology

Before starting the analysis of information that financial institutions made publicly available in 2018 regarding their human rights activities, we took the Financial Services Human Rights Benchmark (FSHRB) developed at the Sydney Law School by Dr. Kym Sheehan and Prof. David Kinley, and adapted the work that was done in the Australian context to the Swiss context. First, we learned about the process undertaken in the Australian context and the type of data that was used to apply it. We then carefully considered and thought about what the type of data analyzed using the methodology represents, and the availability of data in the Swiss context, which is lacking compared to the Australian context. Considering both the availability of data in the Swiss context and the type of data that we deemed best suited for the benchmarking exercise, we decided to concentrate on the analysis of actions that financial institutions communicated about in relation to human rights.

Once the methodology was adapted, we decided to focus our attention on Swiss banks. Unlike our

Australian colleagues, we excluded insurance companies from our sample because of the differences in business models between banks and insurance companies which we think make it impossible to compare between the activities that both types of financial institutions undertake in relation to human rights. In this report, we describe our findings based on the analysis of five prominent Swiss banks of different sizes, including UBS, Credit Suisse, Lombard Odier, Pictet, and Edmond de Rothschild.

This report makes use of different data sources. These include publicly available company generated data found on financial institutions' websites for the year 2018 analyzed using a unique benchmarking methodology, and RepRisk data for the years 2018-2019. We note that the benchmarking methodology used and the RepRisk data enable an assessment that speaks to activity outcomes and the impact of financial institutions, as opposed to the efforts made by financial institutions.

Methodology

To assist us in gathering data about financial institutions' actions, which we refer to as initiatives, during the second half of 2019 we worked with three students studying at the University of Geneva in the context of an "institutional project" through which the students earned academic credit for their work. Applying a precise methodology for initiative-level data collection (please see the definition and examples of initiatives below), the students found institution-level initiatives pertaining to human rights and coded relevant data relating to each initiative. The students collected data from publicly-available sources including annual reports and sustainability reports for the year 2018, and additional information provided on financial institutions' websites. The students analyzed 6.4 sources per financial institution on average, including company websites that contain multiple texts that the students did not download as PDFs before analyzing them.

In accordance with the methodology used, *an initiative* is a *statement of action connected to an identified human rights objective*. Examples of initiatives include:

Example 1:

We're collaborating with the Freedom Fund in its fight against child trafficking and modern slavery.

Example 2:

We conducted assessments of the important role gender diversity plays in corporate performance.

To complement the data analyzed using the unique benchmarking methodology, we looked at data for the years 2018-19 gathered by RepRisk, which collects data on company ESG risks based on information provided by the media, stakeholders, and public sources that are external to the focal financial institutions, as opposed to the internally-generated data that we analyzed using our benchmarking methodology.⁶

⁶ <https://www.reprisk.com/>

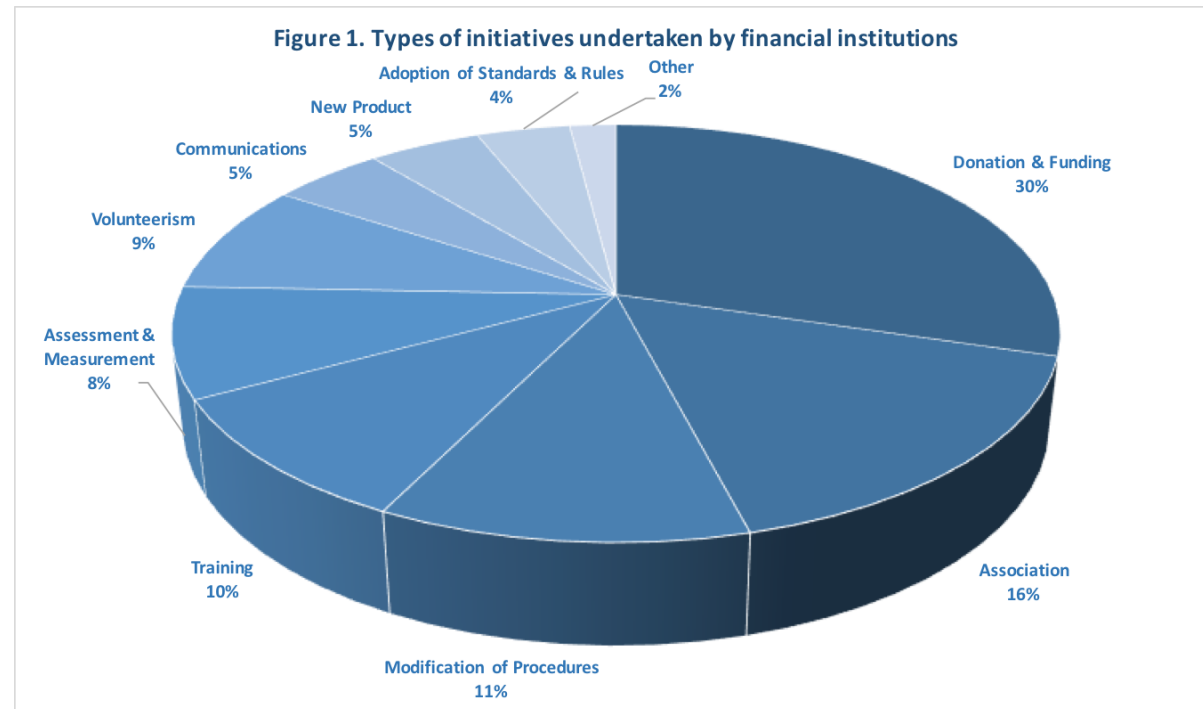
Findings

Based on the publicly available information provided by financial institutions, including information found in their annual and sustainability reports for 2018, as well as additional information found on their websites, we coded a total of 274 initiatives, or in other words, actions that the five financial institutions that we analyzed took and communicated about in relation to human rights matters. We discuss the main findings next.

1. Types of initiatives undertaken by financial institutions to address human rights matters

When coding the human rights related initiatives that financial institutions took, we coded the type of initiative undertaken to answer the following question: What is the financial institution doing to tackle the focal human rights problem? We note that 30% of the initiatives are classified as “donation and funding”, and an additional 16% are classified under the “association” category. Furthermore, 9% of the initiatives refer to employee volunteer work. These types of initiatives, representing **over half of all initiatives**,

are often of a philanthropic nature. Looking at the types of **initiatives that are more closely related to the core operations and activities of financial institutions**, together, modification of procedures, assessment and measurement, adoption of standards and rules, and new product initiatives **make up only 28% of the initiatives** (see Figure 1).

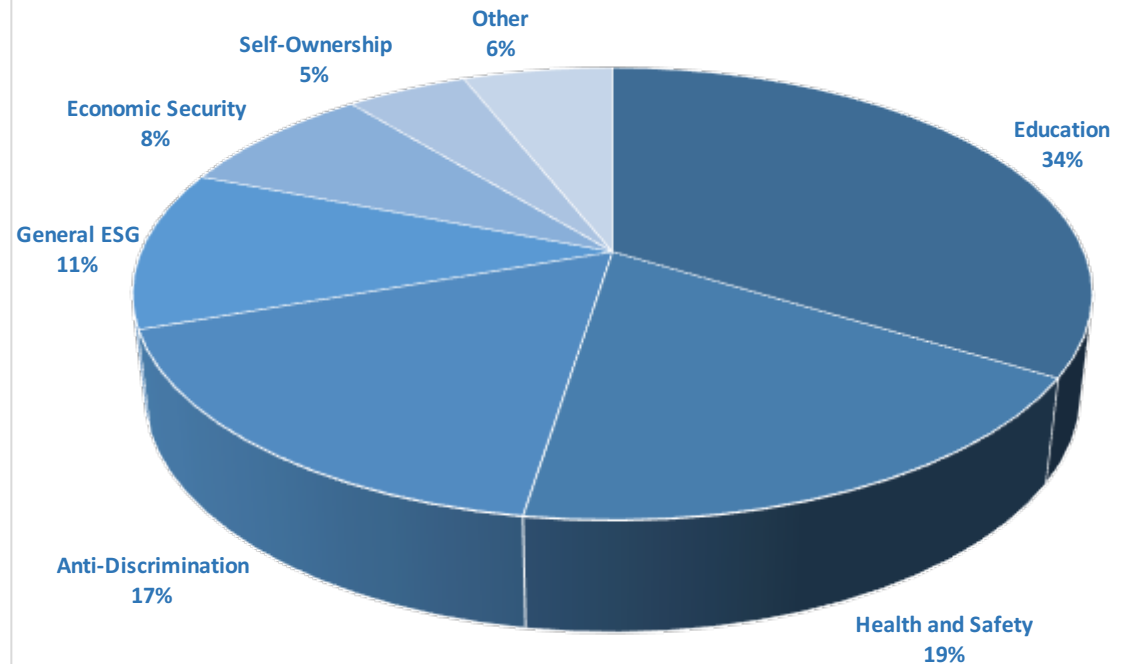


Findings

2. Societal issues related to human rights matters that financial institutions tried to address

In addition to coding the types of initiatives that financial institutions undertook, we also coded which societal issues related to human rights they were trying to address by answering the following question: What is the societal issue that the initiative aims to tackle? As can be seen in Figure 2, a third of the initiatives relate to **education**. An additional 19% of initiatives relate to **health and safety**, which for the most part can be associated with the health and safety of employees. Another important topic that financial institutions tried to address is **discrimination in the workplace**, with anti-discrimination initiatives making up 17% of total initiatives.

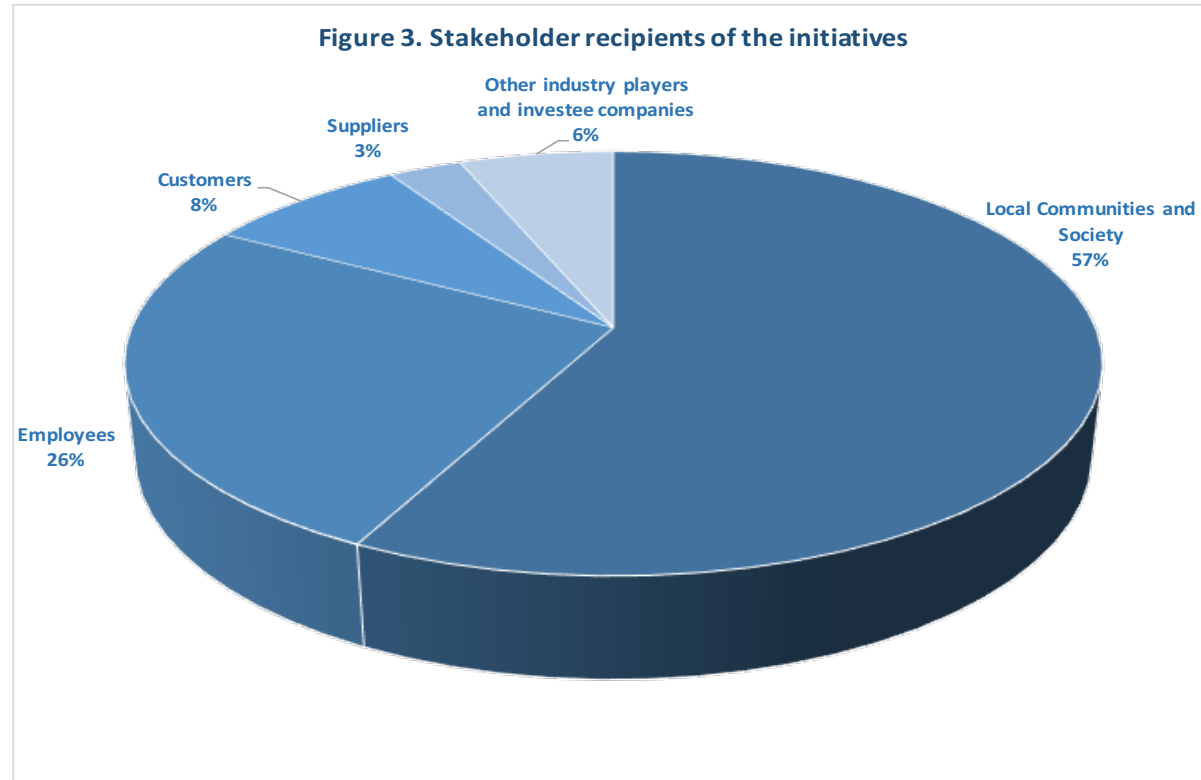
Figure 2. Societal issues that initiatives aim to tackle



Findings

3. Stakeholder recipients of the initiatives undertaken by financial institutions

Next, we answer the question “who is the target of the initiative?” by coding which stakeholder groups the initiatives are targeted at (see Figure 3). In line with the previously identified philanthropic nature of many of the initiatives and the strong focus on education and health and safety, we note that **over half of the initiatives are targeted at local communities and society at large, whereas 26% of the initiatives are targeted at employees.** Only a very small percentage of the initiatives target any of the other stakeholders, including customers and suppliers.



Findings

4. Quantification of the input and output of the initiatives undertaken by financial institutions

When assessing the initiatives that financial institutions undertook, we sought to understand how much detail the financial institutions provided about their initiatives by searching for information about the input and output of the individual initiatives and answering the following question: Is the input and/or output of the initiative quantified? We note that **only 11%** of all initiative descriptions **include an indication of the input** provided by the financial institutions (see Figure 4), and that **only one quarter** of initiative descriptions **include some indication of the output** resulting from the undertaking of the initiative (see Figure 5).

Figure 4. Quantification of initiative input

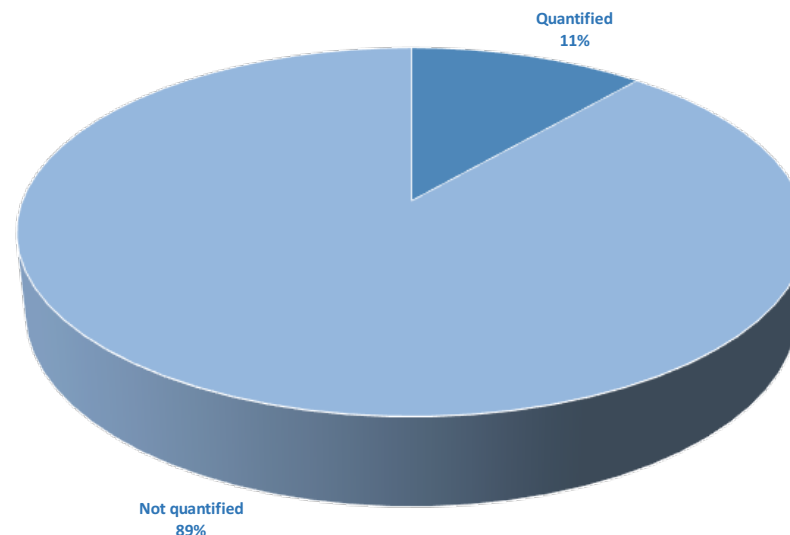
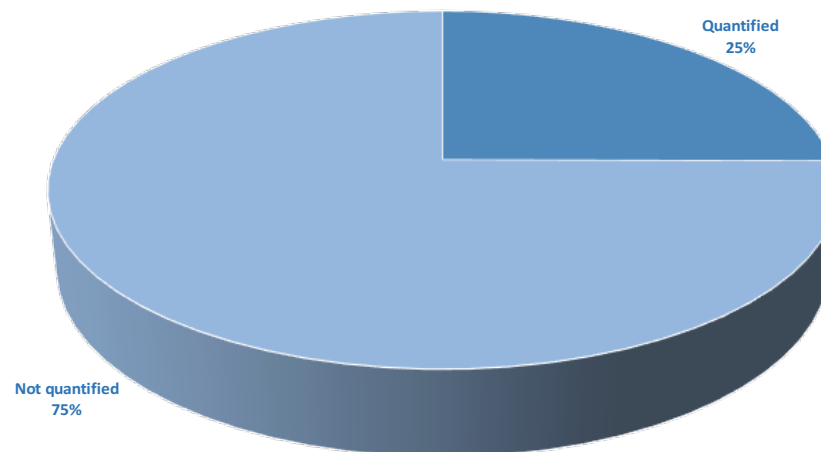


Figure 5. Quantification of initiative output



Conclusions

Our analysis of publicly available data communicated by the five Swiss financial institutions in our sample suggests that **many of the actions that financial institutions have been taking in relation to human rights are of a philanthropic and educational nature**, and that they are often aimed at local communities and society at large. Another central stakeholder group is employees, who benefit from educational and health and safety related initiatives. We note that only a small percentage of the initiatives are aimed at addressing human rights matters pertaining to additional stakeholder groups, such as customers or suppliers. Importantly, for the most part, **the initiatives do not relate to the core business of financial institutions, such as investment, lending, and advisory services, which is where they can have the greatest impact**. We also note that initiative descriptions generally do not include information about the quantification of initiative inputs or outputs.

To complement our findings based on information that has been publicly communicated by the focal financial institutions, we briefly draw the attention

to data collected by RepRisk, which collects data on company ESG risks based on sources that are *external* to the focal companies. In our sample of five Swiss banks, we have two large ones, and three that are considerably smaller in size by comparison. In 2018 and 2019, RepRisk did not register any risks related to social aspects of ESG for the three smaller banks. It did, however, flag risks related to social issues for the two larger banks. Out of around 160 registered ESG risks in total in 2018 and 2019 for each of the two larger banks, social risks made up between 11-14% of total risks. The human rights related risks identified by RepRisk for the larger banks over those two years include the following: Human rights abuses and corporate complicity; discrimination in employment; poor employment conditions; social discrimination; and impacts on communities. Making note of this additional information enables us to highlight the importance of taking into account different data sources when analyzing ESG factors. While the internally-generated data allowed us to find and analyze the initiatives related to human rights that the financial institutions chose to emphasize in their external communications, the data generated

Conclusions

by sources that are external to the financial institutions suggest that there is a mismatch between the information on human rights provided by the financial institutions and the information publicly reported by external sources. In most cases, the financial institutions did not respond in their own reporting to the public human rights allegations related to their core business activities. Moreover, financial institutions can be called out for wrongdoing even in areas that they appear to be acting in, such as discrimination in the workplace.

Based on our analysis of a sample of five key financial institutions in Switzerland, we can conclude that there is some awareness of the importance of addressing and communicating about human rights matters, but that the operationalization as it relates to the core activities of the financial institutions is still nascent. The work described in this report is intended to serve as a first step in understanding the approach of financial institutions in Switzerland to human rights through a case-based mapping exercise. In follow up

projects, we will be exploring the key role of financial institutions in driving the social dimension of sustainability⁷, and the integration of human rights matters into the core activities of financial institutions. You can find our report titled “How are European financial institutions addressing human rights in their activities?”, which is the result of a follow up project conducted in 2020, in the following link:

<https://www.luxembourgforfinance.com/en/publication-mag/human-right-finance/>



7 OECD (2019), Due diligence for responsible corporate lending and securities underwriting: Key considerations for banks implementing the OECD Guidelines for Multinational Enterprises



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