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The Role of Financial Institutions in Advancing Responsible Value Chains

Herman Mulder

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The Role of Financial Institutions in Advancing Responsible Value Chains

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Abstract
2015 was a landmark year for making businesses aware of the consequences of their actions on society. The adoption by the UN of the Global Goals for Sustainable Development and the Paris Climate Agreement are important steps in this regard. The private sector has an important role to play in the realization of the promises made. The financial services sector should be a key driver of public and private sectors to support (by research) and realize (by co-funding) this agenda. It is a business opportunity and a societal obligation. This article explores why and how this sector may become the key driver for the transformative momentum, what it can do itself, and how others (governments, civil society organizations) should support and enable it.

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INTRODUCTION

Responsible business conduct (RBC) by financial institutions extends into their entire value chain, which includes those of their customers and investees, in line with the 2011 Update of the OECD Guidelines for Multi-National Enterprises (MNE-GLs).

These comprehensive MNE-GLs are fully aligned with the UN 2011 Guiding Principles for Human Rights (UNGPs) and international labor standards. The "value chain" definition of a financial institution relates to all activities that such institutions carry out to create positive value for their customers or investees, their direct stakeholders and society at large, as well as those activities that mitigate or reduce any "adverse impacts" by such customers and investees which they have "caused," "contributed to," or are "directly linked" to, as defined by the OECD MNE-GLs.

Enhanced due diligence, effective leverage, and responsive public accountability, key factors in responsible business conduct (RBC), are not only a societal responsibility but also a business opportunity, because these should create value for all shareholders, customers, other stakeholders, and society at large. The 2007/8 financial crisis has illustrated the importance of the financial sector for the economy and society: its resilience, standards and focus matter to us all. Financial system resilience may be defined as the capacity to continuously perform its primary functions, in particular supporting the real economy and enhancing societal wellbeing.

The international developments in 2015 are offering strong momentum and opportunity also for business in general, and the financial sector in particular, to further articulate its role in creating stakeholder, as well as societal value. The financial sector may have a role as "key enabler" due to its role in the economy and its customers' funding operations. Important drivers in this context are the aspirations and commitments of the 2030 UN Global Goals for Sustainable Development, the Paris Agreement on Climate Change, the outcomes of the 3rd UN conference on Finance for Development in Addis Ababa, as well as UNEP Inquiry Report on the design of a Sustainable Financial System.

This article proposes some initiatives for the financial services industry (including banks, pension funds, insurance companies, private equity, impact investors, and philanthropic organizations). The financial services sector may give itself more credit, but also, clearly, assume more responsibility for values-based, authoritative, value-preserving and -creating leverage it has with its customers and investees for creating positive, true societal value. It deserves more trust from society for its efforts to learn from previous mistakes and working with higher values and better practices. For further improvement the sector may benefit from policy and regulatory support from governments and from constructive engagement and input from civil society organizations.

THE EMERGING CONTEXT: TRANSFORMATIVE MOMENTUM

Values-based scaling up/speeding up is becoming a business reality, particularly among large international corporations. The RBC/ESG/CSR agenda has evolved during the last 10 to 15 years from being merely a voluntary exercise undertaken by progressive practitioners through self-regulating codes/frameworks like the Equator Principles, UN Global Compact, PRI (Principles for Responsible Investment), GRI (Global Reporting Initiative), ISO26000, and platform-organizations like the World Business Council for Sustainable Development (WBCSD), UNEP-FI. We have now entered a new stage of development, with governments taking on more active and normative roles. A more shared agenda, co-created by governments, business, and civil society organizations, is setting the stage for soft law based on emerging good practice. Businesses, and they are many, that are members of organizations such as WBCSD and PRI are supporting such trend, as it responds to urgent environmental and social needs affecting their businesses, as well as facilitating the creation of an international level playing field in business.

The 2011 update of the MNE-GLs, as a baseline framework for corporate behavior, is a prime example of this, as there was active involvement of the business sector in the development of these guidelines. The update has been co-created and, hence, has a high degree of shared responsibility from BIAC (Business and Industry Advisory Committee to the OECD), TUAC (Trade Union Advisory Committee to the OECD), and OECD Watch (NGO platform to the OECD[2]). A number of sectoral guidance notes are being developed similarly on a multi-stakeholder basis building on these MNE-GLs. Another example is the 2013-launched GRI-G4 reporting framework on corporate disclosure, as it has become recognized (also by its multi-stakeholder governance structure and its due process of worldwide public consultation) in many countries as an authoritative standard for sustainability/non-financial reporting by business, and as such recognized in the MNE-GLs and the 2014 EU Non-Financial Reporting Directive.

2 The OECD Guidelines for Multinational Enterprises are being adhered to by the 34 state members of the OECD, but also adhered to by 12 non-members (including, for example, Brazil).

Setting standards and mainstreaming with government support is accelerating, and documents of sector initiatives are increasingly linked with the generally accepted standards (for example, by the Thun Group with the UN Guiding Principles on Business and Human Rights, and by recent initiatives by leading pension funds with respect to the MNE-GLs and Climate Change). It took GRI 15 years to evolve from a good idea, a framework to become a widely applied standard, which has clearly contributed to a general acceleration of the pace of RBC standards, practice, and disclosures. Such evolution in other RBC areas will intensify and accelerate and become mainstream, with the financial services sector becoming actively involved. The only missing stakeholder is still the end-consumer, but that will also change shortly.

The recent international policy agenda has created very promising confluence and momentum for all businesses (large and small; local and international) towards increased focus on value chains, public-private sector partnerships, RBC and looking "beyond GDP/ financial capital." This momentum is occurring within the context of a shared ambition for more sustainable, inclusive, global economic growth, and societal stability. Through focus on "sustainabilizing" (for environmental issues) and stabilizing (for social issues), the value chains are rapidly becoming a shared business and societal interest. Recent 2015 milestones to note are:

- The G7 and G20 Summits, chaired by respectively Germany and Turkey.
- The UN Finance for Development Conference (FfD3) in Addis Ababa, with explicit reference to, inter alia, blended and infrastructural finance, new financing instruments for sustainable development, need for policy coherence;
- The adoption of the UN post-2015 (universal) Global Goals for sustainable development in New York, with 17 goals and 169 targets.
- The UNEP inquiry report on a "sustainable financial system," in particular focusing on the role of regulators/supervisors/standard-setters.
- The Paris Agreement on Climate Change, following the COP21 conference.

The moral underpinning of the agenda was further emphasized by the Papal Encyclical "Laudato si'" on, inter alia, the environment and on climate change.

In addition, the broadening of the interest to establish global responsible business conduct standards was illustrated by China's recently growing interest in learning from, and even associating itself with, the MNE-GLs, (at least for its international business), making the latter (in due time) even more globally recognized. The ProActive Agenda for the financial services sector under the MNE-GLs is work in progress. In 2016, the OECD will recalibrate official development assistance (ODA), as well as review the recognition of new (innovative) instruments as part of the "total official support for development" (TOSD), such as development-impact related partial risk guarantees. Some large philanthropic organizations are also increasingly focusing on the Global Goals, as was also recognized in Addis Ababa.

The Dutch policy and civil society agenda also includes some promising initiatives, such as:

- The start of the 2015-2017 Sector Covenant Process of 13 high societal impact sectors (among which is banking): although initiated by the Government, it is led by business with active civil society involvement.
- The preparation of an ambitious, broad-based Dutch 2030 Global Goals' strategy by a coalition of (80) progressive business and civil society organizations (led by Worldconnectors, DSM, True Price, with support from the Dutch Ministry for Foreign Affairs: Dutch Global Goals Charter Coalition) for partnerships in the Dutch national and international value chains.
- The legislation of the EU Directive on Non-Financial Reporting into national law.
- The Dutch EU presidency during the first half of 2016, with, inter alia, special focus on aid and trade.

This context offers the Dutch financial services sector an opportunity in 2016 to domestically lead, as well as reinforce its progressive role in international policy and encourage national and international value chain practices towards an ambitious, more responsive and responsible role of the financial institutions in society.

As is my credo: "Nothing is impossible, particularly when it is inevitable." This is an opportunity to lead with ambition, and by the financial services sector in particular.

CREATING VALUE BY AN AMBITIOUS, RESPONSIVE AND RESPONSIBLE FINANCIAL SERVICES SECTOR

Micro- and macro-prudential risk management is at the core of the financial services sector. In a smaller, increasingly dynamic, "flat," transparent and stormy world, values'-based forward and integrated thinking, practicing, and reporting should support such risk management by the financial institutions and their customers, investees, insureds. Risk management is about taking informed decisions and carefully considering all that we need to know: the ever-changing context and the not so obvious or ignored "externalities" of today (which we do not account for, or offload on society). Risk management is also quite relevant in order to prudently time-match assets with liabilities, particularly when it concerns long term and illiquid exposures, which may become potentially (sometimes sooner than you expect) value-impaired or even stranded.

Strengthening in-house risk analysis and risk management capabilities is of the essence and should serve as an "insurance premium" against major liabilities and risk-losses. We seem to always have the wisdom to explain with the benefit of hindsight why a crisis, a failure or an incurred loss was foreseeable and even preventable, yet we often lack the foresight or the preparedness to take the collective, corrective early steps needed, notwithstanding hearing "the canaries in the coal-mine."

The need for integrated thinking is increasingly apparent, but also challenging for practitioners and assurance providers alike. It has four dimensions:

- **Forward thinking with advanced due diligence:** risk-based, societal context- and impact-sensitive, rights' compatible, actual and potential, initial and ongoing. It should explicitly consider, next to the traditional economic and financial capital, also natural, human, social, intellectual, and manufacturing capitals.
- **In the entire value chain (cradle-to-cradle):** a transition from "know your client" to "know your client and their value chain and emerging context."
- **Evaluating and balancing multi-stakeholder and societal interests:** impacts and benefits, including today's society and those for future generations.
- **"Materiality-based" public disclosure and integrated reporting thereon**: on the basis of the principle "report or explain why not."

Societal risk analysis and impact assessment is a new risk approach. Operating in the public domain is a complex and challenging task for business. As society is becoming more involved in business performance and its implications on others, a new risk category may be considered and organized: "societal risk and impact assessment." Such risks may be differentiated from more traditional risk categories, such as credit (including political) and operational (including reputation). This approach underlines the need for proactive, enhanced initial and ongoing due diligence on impacts that financial institutions directly or indirectly (through their value chains) have on others, including civil society at large. Knowledge of international law and standards and anticipating "the law of the future" are important new dimensions for businesses with international value chains.

Functions such as reputation management, public affairs, and issue management tend to be more defensive, inward looking, and ad hoc, while societal risk management is more dynamic, outward- and forward-looking, and strategic, supported by active societal engagement, learning, evaluating and capturing sector-, client- and transaction-specific issues. Leading financial institutions have recognized this. Early identification of potential adverse impacts on society, and value impairments or stranded assets in their own portfolios may be outcomes of such a structured risk-based scenario approach. The process of creating a materiality-matrix (as recommended under the GRI-G4 framework, and increasingly practiced) in consultation with internal and external stakeholders is quite valuable to match the interests of society with those of the corporation, and attach key performance indicators (KPIs) to the outcomes.

"Fueling the wheels of the economy" as a catalytic role for the financial services sector within a real and inclusive economy should become the new paradigm. By setting an example in its core values, comprehensive policies, responsible practices, accountability by its (materiality-based) integrated reporting and by using its individual and collective leverage towards more responsible, sustainable customers, it will become a driver for positive change.

Also relevant in this context is the fact that the "internalization rate" of unaccounted externalities in the costs and value creation of doing business (as these are, as yet, either unrecognized or, by default, off-loaded on society, but eventually and inevitably will have to be, by markets or regulations, absorbed) is accelerating by advanced businesses.

Sometimes a shock is needed to wake us all up and prepare us for a transformation: "from pain to gain." For example, the 2013 Rana Plaza accident has had a major impact on the entire garment and apparel sector. It has definitely accelerated the "internalization rate" momentum in this sector, with direct multi-stakeholder involvement across the value-chain. The severity of this accident, the circumstances around it, and the attention it received in the international public domain has demonstrated the risks of liabilities, the costs of conflicts and accidents, and the loss of reputation, throughout the value chain across the sector, even for those companies not directly linked to the accident.

The notion of "show me the money" (quick profits to the shareholder) is clearly graduating into a broader and longer term "show me the value" with a specific focus on generating long term value to all stakeholders without, at the very least, doing no harm to society, and preferably to do good. There is a wider trend towards identifying and measuring environmental (and social) externalities: UN-TEEB, WBCSD and the Natural Capital Coalition are among the platforms and institutes that work in this field.[3] Also various accountants and consultants, including the Big 4, are contributing to this movement.[4]

True Price, a Dutch social enterprise, is among the leading international incubators working towards creating positive and negative measurements, and tools to even monetizing the environmental and social externalities by developing and testing methodologies for true pricing (for products), integrated P&L[5]/true value (for businesses), and true returns (for investment portfolios). It provides actionable insights into the value chains of companies. Pension funds are getting interested in assessing their value-creation for society. The MNE-GLs are used as the standards' baseline and take into account non-traditional forms of capital, such as natural, human, social, manufacturing, and intellectual capital, as well as financial. This is similar to the approach taken by the International Integrated Reporting Council (IIRC).[6]

The traditional, mostly legal boundaries of corporate responsibility and accountability are becoming increasingly blurred. This is reflected in the MNE-GLs, where certain responsibilities are recognized for a given company from not only the perspective of "causing" or "contributing" to adverse impacts, but also by being "directly linked to operations of a business relationship causing the adverse impacts." This notion defines an extended responsibility and accountability for impacts (and remediation in the case of "cause" or "contribute," the latter including "benefiting from"), requiring companies to deepen and broaden their due diligence. The term "being directly linked" is of particular relevance to the financial sector. In this context, the potential leverage a financial institution has is more important than just the financial interest associated with the given business relationship. Businesses are encouraged by the MNE-GLs to use their leverage within their value chain as a way of responsibly conducting business with suppliers, contractors, partners, and customers (including investors and investees). They may do this alone, in cooperation with partners, or within the sector. In the structuring of financing (and insurance) documents, addressing RBC-related issues need to be defined as precedent conditions, as well as ongoing.

The "materiality" question, relating to "what matters to whom," has become a major area of focus, especially since GRI-G4 was launched in 2013. Leading businesses are increasingly publishing their materiality matrix, linking and ranking in their annual reports the relevance of issues to stakeholders (and society).

The issue of client- and competition-sensitive confidentiality versus public accountability is one that also needs to be further explored, with a need for a greater emphasis on the "materiality to customers, to other stakeholders and society." Aggregate exposures to particular sectors, and policies and the performance therein, should definitely be regularly reported.

Reinventing structured finance may become a high priority for banks in redefining their core-business: "blended finance" in infrastructural – and/or corporate value chain – financing, inspired by the Global Goals, with the OECD Guidelines as the baseline, will offer opportunities for cooperation between arranging banks with asset-investing pension funds and impact-investors. Such financings may be complemented by independent feasibility studies and technical assistance financed by philantropies, possibly further enhanced by development-impact related credit/investment-guarantees from governments or multinational financial institutions. Such integrated, multi-stakeholder, and multi-faceted structures may make a major contribution towards realizing the Global Goals.

All of these external, societally-driven initiatives offer the financial services sector an opportunity to illustrate to their customers a broader perspective, offer practical advice, mobilize capital, and provide leadership towards a shared, long-term interest between the private sector and society at large. This requires a clear "signal from the top" and consistent engagement with stakeholders. Many Dutch companies (including financial institutions) are internationally prominent and recognized to be open to having such meaningful multi-stakeholder approaches on policies and transactions.

THE FINANCIAL SERVICES SECTOR MUST DO THE HEAVY LIFTING ITSELF

Internal culture matters: embedding core values, integrated thinking, and broad-based action by financial institutions requires awareness, creating the right internal culture, training, professional focus and self-confidence in order to engage with relevant stakeholders and society. By sharpening their own diagnostics and research, financial institutions will become more authoritative on relevant developments and issues, while their capital mobilization and advisory services are supporting long-term value creation and asset protection for customers and themselves.

3 See amongst others TEEB, 2008, "The economics of ecosystems and biodiversity interim report," and NCC, 2014, "Taking stock: existing initiatives and applications."
4 See amongst others: PwC, 2013, "Measuring and managing total impact: strengthening business decisions for business leaders," KPMG, 2014, "A new vision of value: connecting corporate and societal value creation," True Price, Deloitte, EY, PwC, 2014, "The business case for true pricing."
5 True Price (2015) Multidimensional P&L in brief.
6 IIRC, 2013, The International <IR> Framework.

The quality of available data – on the "real economy," industry developments, clients' value chains, and externalities – is a critical risk and success factor. Further, access to risk analytics, independent impact assessments, and (buy-side) rating methodologies are important factors going forward.

The financial services sector must improve its disclosure and external communications about its operating standards, policies, and related performance. Considering its commitment to the RBC mission, the Dutch financial sector has recently made significant progress, most notably through increased stakeholder engagement, policy development, active participation in (international) industry platforms, performance, and disclosure. Still, much more can be done, individually and, importantly, collectively. In addition, the financial services sector may, of course, maintain its broader societal engagement, which includes foundation support, and community services like financial education and empowerment.

The MNE-GLs are the foundation for the Dutch Sector Covenant Process and should be recognized as over-arching guidance for its own business principles and practices. The MNE-GLs are not only focused on the ambition of "sustainability" (foremost the environment, climate change, employment conditions, and social justice), but extend this by introducing the theme of "responsible business conduct" (RBC). This includes other important aspects such as disclosure, bribery, consumer protection, science and technology, competition, and taxation.

The key theme to be strengthened is the initial and on-going risk-based due diligence in the entire (supply, distribution, and service) value chain. In this context, it should consider focus on "activities directly linked to adverse impacts," the "materiality" of an issue for all stakeholders, as well as its potential impacts on, or benefits to, the society at large. It should also consider using its individual or collective "leverage" to address the impacts. Stress-testing exercises on its portfolios, clients, and transactions may be expanded beyond the traditional, purely economic approaches, to include societal developments (resource availability, loss of biodiversity, environmental degradation, social injustice, climate change, fundamental values). Much can be learned from progressive customers and investees. Benchmarking other, less advanced companies with such leaders offers useful insights, and can be used as input for sector policies and advice to others.

Making the financial institutions better fit for tomorrow requires:

- Fully integrating comprehensive ESG/RBC factors into the core risk and research analysis and approval processes, including in the KPIs and Risk Appetite Framework and Statement.
- Accelerating awareness, culture, and training for all "lines of defence" (customer-facing, risk-function, control and audit).
- Becoming the authoritative example/benchmark for public reporting (integrated reporting, including G4).
- Making use of emerging approaches/tools, such as entire value chain risk assessment and impact mapping, foot printing, circular economy principles, monetizing externalities, and creating pro forma integrated P&Ls.
- Taking the lead in the SDG and climate change agendas.

The term "impact-investing" may still be considered "a special asset class" or even an "oxymoron," but should, sooner rather than later, become a "mainstream standard," i.e., a "tautology." Furthermore, in an increasingly fast-paced, changing world, the risk of value-impairment and stranded assets is becoming more prominent, particularly for long-term investors.

Making financial markets better prepared for tomorrow's challenges and opportunities requires stimulating and assisting corporate customers to significantly improve their risk analysis and disclosures, and improve their public disclosure by embracing the EU Directive on non-financial reporting (applicable to any company with more than 500 employees). Organized trainings, workshops, and advisory services may also be of benefit. Making markets much better fit for purpose recognizes that markets are not perfect, and prices (and valuations) are often not right. Hence, we must raise, together with regulators, supervisors and stock exchanges, the quality of disclosure/ transparency by the sector itself and their customers and investees, with Pillar 3 of Basel III/Solvency II market-disclosure at the center. In addition, migration from combined reporting to materiality-based integrated reporting (including using GRI-G4) should be strived for. It should be recognized that not reporting the impact of potential material issues on the company itself as well as on those affected by the company (other stakeholders and the society) is a disservice to efficient markets and may even become a legal liability.

Access to remedy for affected stakeholders (Prof. John Ruggie's third Pillar, as well as "state duty to protect" and "business duty to respect") is also an important factor in an effective "social compact" of business in specific transactions, at both the corporate or sectoral level. The National Contact Points (NCP's) under the OECD MNE-GL's in the Netherlands, which is independent but operating under the political responsibility of the Minister for Aid and Trade, are also demonstrating the benefit of such mechanisms by accelerating mediated solutions and reducing the cost of conflicts.

THE FINANCIAL SERVICES SECTOR CANNOT DO IT ALONE: THE ROLE OF THE GOVERNMENT

A key contribution of the government is to create a coherent and enabling environment, making the financial services sector and financial markets systemically more resilient. A coherent, effective control environment needs to be created by regulatory and supervisory interventions (regulations, policies, guidance), which is fully aligned with societal priorities. Sector codes, regulations, and policies through organizations such as OECD, UN, BIS, EU, ECB, as well as national governments (for example, in the Netherlands we have the Dutch government, DNB, SER-ICSR (IMVO)), are important for providing more coherent regulations and policy guidance, as well as explicit recognition and capital charge incentives for structured approaches to value chain risk analyses.

"Sustainabilizing" and (socially) stabilizing value chains for defensive portfolio risk purposes may be practiced, while at the same time realizing the potential for strategic and practical (sustainable) value chain advisory services by financial institutions (banks in particular) to their customers. Such an approach may also directly strengthen their earnings capacity. New regulations and policies should not unduly increase the burden of internal controls or supervisory oversight. The materiality concept is also of the essence here.

Current regulations and codes are not sufficiently compatible, and in certain circumstances even counter-productive, to the emerging RBC/ESG agenda. Anti-trust laws, due to its traditional focus on consumer-protection, sometimes seem to get in the way, without offering space for collective action by business on sustainability. Experts from financial institutions should, perhaps at the behest of supervisors, prepare a white paper with an overview/evaluation of the specific requirements and processes that may become obstacles. They may make recommendations as to how regulations and codes may support the RBC agenda, and how a "bonus/malus" approach may be considered on risk weighting/capital charges in order to facilitate pricing (des-)incentives for customers. Perhaps this might be an opportunity for "Basel V."

Consultation within the financial sector on ESG/RBC directions and issues may be intensified through the sector organizations, with the governments and/or supervisors (such as DNB, the Dutch Central Bank, and AFM, the Netherlands Authority for the Financial Markets, in the case of the Netherlands) serving in a convening and stimulating role. This approach would be similar to the process on bank transparency that was hosted in 2014 by the Dutch Ministry of Finance and which has now been adopted for further action by the NVB (the Dutch Bankers' Association). This may be done in a structured way, say twice a year, with focus on society-strategic issues that could be related to the 2015/2016 international agenda mentioned above. The UNEP Inquiry Report is definitely contributing to this process.

The new agenda, with focus on "stewardship," "duty of care," and "universal ownership" of the financial services sector also has profound consequences for a modern, effective corporate governance framework, including but not limited to values, purpose, ownership, corporate boundaries, the board role and composition. It is recommended that "impacts on society in the entire value chain" of a corporation is better addressed in this debate and in the corporate boards, as adverse impacts on civil society (including nature) have become more relevant. The 2015 Principles of Corporate Governance, as adopted by the G20 leaders in Antalya (Turkey), unfortunately do not sufficiently recognize this.

THE FINANCIAL SERVICES SECTOR CANNOT DO IT ALONE: THE ROLE OF SOCIETY

Media, civil society organizations (including trade unions, NGOs), and academia have an important role in challenging, as well as supporting, the financial services sector to fulfil its roles. Risk management is all about taking medium- and long-term, informed, decisions (i.e., beyond a regulatory one-year horizon for the probability of default). It is important "to know what you ought to know," but actually do not. So the question is, how can we know such issues? Who can assist? Many societal issues, like inclusiveness, environmental degradation, loss of biodiversity, climate change, and social justice, reflect processes of creeping insolvency until a major disaster acts as a wake-up call. Early, effective preventive or corrective action is morally required and business-wise prudent.

Knowing and showing: an increasing number of civil society organizations recognize that the issues at stake are too important and urgent to address not to work together with business. Some of them are taking, next to their traditional advocacy role, a more strategic approach. This may also be attributable to their accredited role, since 2011, in the MNE-GLs; moving from a single issue challenger solely focused on "naming and shaming" to a new, constructive one on the basis of "knowing and showing." This implies raising an issue to be resolved, but also for putting it in a broader, even systemic, context for balanced solutions.

Do not disengage: running away from an adverse impact may make matters worse for the affected people, but is quite a challenge as public opinion may still be highly critical; intensifying dialogues and cooperation with civil society organizations may help in this context. Companies should not disengage from the issues or impacts, but rather endeavor to address and resolve them, as is also stated in the OECD MNE-GLs. By doing so, the financial services sector will become more credible and trusted, innovate within their business and reduce the costs of conflict. While this will require significant commitment, resources, and stamina, it is strategic and even "existential." Structured dialogues by the financial services sector with civil society organizations and members of parliament to address issues and initiatives from both within the sector and civil society organizations are important. Education and ongoing training on RBC issues should be significantly strengthened and scaled up. Universities and other knowledge centers need to allocate more resources for integrated thinking and practices across disciplines, for education and research.

SOME RECOMMENDATIONS

Strengthen due diligence and leverage: financial institutions have the opportunity and responsibility to use their due diligence and leverage, whether alone or collectively, to stimulate more responsible business practices in their entire value chain, including the value chains of their business relationships, notably clients and investees. Their added value includes anticipating and balancing risks, and supporting value creation for them as well as for all relevant stakeholders and society at large. Due diligence of the value chain is at the center, and it is not just a defensive approach. Next to risk management, it is also becoming a tool for identifying business opportunities, not only for the financial institution itself, but also for their (small, medium and large) business customers and investees.

Adopt the MNE-GLs as a baseline standard: by adopting the OECD MNE-GLs as a baseline guidance in its customer-facing businesses (including capital mobilization and advisory services) the sector would be instrumental in the building of a broad-based, multi-stakeholder environment (as also aspired in the Global Goals) for responsible business conduct; thereby also contributing to a level playing field for itself, its customers, and investees.

Focus on materiality: prudent, effective, and efficient risk-management should focus on the materiality of issues to the company's stakeholders and society. Public disclosure should also take this approach. Regulators and assurance providers should consider this too as regulatory – and data – accumulation in financial and non-financial reporting is becoming costly while not serving its purpose of being meaningful to interest-holders. Use the internal and external stakeholder materiality-matrix process as a valuable platform for identification and prioritization of key issues and attach KPIs thereto.

Show ambition and courage to lead: the 2015/2016 national and international policy agendas offer a great opportunity to put the ambition of a revitalized, innovative, responsive, and responsible financial sector into practice and in the public domain. Financing is at the center of realizing sustainable development, as reflected in the Finance for Development Summit (FfD3).

Integrate new approaches, business models, processes and tools: in a world that is increasingly dynamic, inclusive, transparent, rights' sensitive, and resource constrained, it is prudent practice to improve initial and ongoing due diligence with clients, investments, and other transactions. Further integration of responsible business conduct into the main risk management and business generating processes has become an imperative for resilience and success. This integration also offers the space for innovation, such as the development of new tools, as well as business models and practices.

Read the emerging context: frequent engagement on societal and strategic issues with clients, civil society organizations, governments, supervisors, and academics may be intensified. Within the Netherlands, the recently started 2015-2017 Sector Covenant Process, initiated by the government, offers a platform for this in 13 parallel sectoral processes, including the financial services sector itself with three sub-trajectories: banks, pension funds, insurance companies. Some involvement of the financial services sector in the other sector processes would create value for the other sectors as well.

Create an enabling policy framework: governments and supervisors may provide more coherent, forward-looking policies and regulatory frameworks, which are conducive to a proactive financial sector that meets not only stakeholders' interests but also general society's priorities. A review of the prevailing regulations and policies, as part of the UNEP Inquiry Report, may be made jointly with the sector against this perspective. Define KPIs and report on the performance, including dilemma's faced.

Recognize that RBC is a journey, and you cannot walk alone: civil society organizations are encouraged to recognize RBC by business as a journey that requires trust (or at least "benefit of the doubt"), time, cooperation, balanced solutions (of which such organizations sometimes do not agree amongst themselves), and accountability. Such organizations should be prepared to constructively cooperate with the financial services sector on key issues on the basis of "knowing and showing"; recognizing that legacy issues and incidental "pain" often offer an opportunity for systemic "gain" for everyone. In addition, universities are encouraged to more actively include the RBC perspectives and issues discussed in this paper into their curriculums.

Intensify the non-competitive dialogue and collective initiatives: it is recommended that the internal financial services sector dialogue intensifies: non-competitive exchanging of views, cooperation, and streamlining are warranted in order to further prioritize and pool resources. Anti-trust regulators need to recognize that such joint sector initiatives are intended to be created in the interest of the public good. Competition should be on the basis of client proximity, execution capability, and pricing, not on the basis of compromising fundamental individual and/or collectively agreed values.

Be honest in your internal and external communications: in today's world of data-technology and (social) media, increasingly, public perceptions are driving realities affecting reputations, brands and trust. There is no time or space to hide anymore: transparency, unknowns, dilemmas, mistakes are part of reality, so accept this reality and actively listen, learn, and address with honesty and confidence.

Culture matters: perhaps the most important factor within the financial sector for rebuilding external trust and internal self-confidence and pride is by performing the right business for the right purpose: this must come from within!

CLOSING COMMENTS

The year 2015 has shown us the enormous impacts and costs of conflicts and poverty, causing an emerging social crisis with large flows of refugees and migrants (in line with my earlier view on a "forthcoming major crisis of October 2015"), but, fortunately it also demonstrated the ability of the international community to set goals and make commitments to address some of the root causes. The period 2016-2020 is critical to convert the expectations, promises, and commitments into tangible results. This cannot be done without business, with a special role for the financial services sector: "noblesse oblige."

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