

What Financial Institutions Can Do for CSR

Finance Drives CSR Efforts



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Financial institutions recognize their ability to help resolve social problems, and hence, are willing to acknowledge the reasons for their operation and existence within society.

Environment, society, and economy: Financial professionals must achieve balanced investment results

Arai: Professor Fujii, I was fortunate to have read your book, *Addressing Global Environmental Issues Using Financial Functions*. It made me realize that the changes described in your book are happening on a daily basis around the globe—the increase in depositors and investors who demand to know the stances of corporations on the environment and the measures they take; and investment and lending activities carried out based on these criteria.

To solve environmental problems on a global scale, utilizing the function and power of finance can prove to be an effective way to achieve this. This is certainly the perspective that underpins the Principles for Responsible Investment (PRI)^{*1} recently put forward by the United Nations Environment Programme Finance Initiative (UNEP FI).

Fujii: As a financial institution handling investments, your company should be commended for becoming one of the first signatories to the PRI. Since the investment professional is entrusted with funds from investors and has to decide how to best invest them, I applaud the Daiwa Securities Group for clearly stating its intention to perform investments that aim for a balance of environmental, social, and economic results. I look forward to good financial results based on this approach.

Participating in the creation of common CSR guidelines

Fujii: Although Japan has typically adopted CSR rules from Europe and North America in the past, it is very important that Japanese

financial institutions now participate in the writing of CSR guidelines at the global level. I think that in the near future, rules will be written to reflect the diverse values of people worldwide, so that everyone is more willing to observe them.

Arai: I participated in the third edition revision of the GRI^{*2} Guidelines, as a member of the Investor Consultation Group. The Investor Consultation Group makes recommendations from the viewpoint of the investor. I noticed that the guidelines created thus far, from a Japanese standpoint, were conceived with European and North American perspectives in mind. The thing that struck me, however, was that Europe and North America are keen to have Japan present its own perspective in this process. Since CSR and SRI are closely linked with the culture of each particular country, they are interested to know where companies and people in Japan stand on specific issues. The other members of the Investor Consultation Group are asking its Japanese members, as representatives of Asia, to actively express their own views on the subject.

If there are financial products that indicate the investment recipients, then investors can make choices as consumers

Arai: I think the purpose of stock investment is not only to maximize profits, but to actually achieve a wider set of benefits, not just for the individual, but for society. Just as there are investors looking only for short-term gains, there are also investors looking for long-term social results, such as a person raising a child or building a company.

Investment trusts are now offered by banks and post offices, and new types of investors are surfacing in Japan. By focusing on what

What role should financial institutions play to help resolve social problems such as environmental, labor, and poverty issues? Professor Yoshihiro Fujii, who specializes in environmental finance at the Graduate School Of Global Environmental Studies, Sophia University, and Masaru Arai, Director & Principal Executive Officer and Chief Investment Officer at Daiwa Asset Management Co. Ltd., sat down to discuss this question. (Discussion date: June 5, 2006)

is important when investing, these services are creating new investment opportunities. Our obligation is to actively promote the SRI concept.

Fujii: Individual investors are also consumers. Since the function of financial products is not immediately apparent, the eye initially turns to aspects such as the interest rate, dividends and yield. This is worsened by the fact that conventional investment trusts do not fully explain how they evaluate their investment choices.

Once it is clear which companies are selected for investment based on what criteria, investors are better able to select products depending on where they wish their money to go. Considerations for environmental and social impact are always going to be a part of one's decisionmaking process. Of course, people also consider their children and their own retirement in making investment decisions, and everyone wants good economic returns. At the same time, how healthy your neighborhood is, how long it'll stay that way, whether the sky above will be clouded from pollution, those are universal concerns, too.

As more investment products that show where the funds are going come to market, investors will display typical consumer behavior, making choices depending on their own perception of a good investment. This is where they will expect the professionals to help them.



Accountability and funding through financial markets. Focusing on socially responsible investment.

Fujii: When considering environmental issues that affect all countries, such as global warming, it is very hard to secure funds to tackle these problems on a global scale. No matter how many regulations the governments put in place, or how many subsidies are provided, there is an inherent market inefficiency. However, by utilizing the financial market, whose role is to move funds into investments, financial resources can be used to the benefit of all the parties involved—financial institutions, investors and society as a whole.

If those working at financial institutions take pride in the fact that their efforts can make the world a better place, I think that society will be headed in the right direction.

Arai: I feel a very heavy responsibility as an investment company employee or investment institution professional. SRI is certainly not a difficult thing. For example when you want to make a new friend, you have an idea of the kind of friend you are looking for. The same kind of approach should be applied when looking to invest in a company. The Daiwa Securities Group SRI funds have become the largest of their kind in Japan. This shows how motivated we are to provide SRI funds to investors. The Group's medium-term management plan announced this spring also emphasizes SRI in our basic strategy.

Stock exchanges and financial markets are gradually changing, and a new breed of investor is being created. As a corporate group, we want to keep explaining to investors that their money can help change the world.

Fujii: The world is facing great problems. However, if everyone recognizes that these problems are real, everyone will have to participate in solving them. By acknowledging that they have the ability to help address these issues, employees at financial institutions can fully appreciate the meaning of their work and existence. This gives them strength, and makes the company more competitive, creating a desirable self-reinforcing effect.

Money will then flow in the right direction, and many people will be satisfied with that. Financial institutions and their investment selection criteria will support this flow, and this will lead to higher profits. If you appeal to people's wish to do the right thing, and promote these kinds of financial products in an honest and sincere way, I think the Daiwa Securities Group will be supported by a large number of customers.

I really hope that your company will lead the way in this capital flow revolution.

*1 PRI: Principles for Responsible Investment. These principles are based on environmental, social, and governance considerations. They are used in performing asset management and investment by institutional investors and fund managers.
<http://www.unpri.org/principles/>

*2 GRI: Global Reporting Initiative. An international institution established in 1997 with the goal of preparing and promoting international guidelines relating to corporate sustainability reporting.