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Company report review

Royal Bank of Scotland

Corporate Responsibility Report 2004

Presented by: the Ethical Insight team at  
Maplecroft

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### Note

This review is based on information contained in the electronic version of Royal Bank of Scotland's Corporate Responsibility Report 2004 available at: <http://www.shareholder.com>. This review is intended as a summary only and does not provide full and complete discussion of all the issues contained in the report.

## 1 Company background

The Royal Bank of Scotland (RBS) Group is a leading financial services provider and one of the oldest banks in the UK. Following the takeover of National Westminster Bank in 2000, the Group has continued to grow its business around the world and, in addition to a strong UK presence, the bank has offices in Europe, the USA and Asia, with a total of 137,000 employees. By the end of 2002, RBS was the second largest bank in Europe and the fifth largest in the world by market capitalisation.

In a foreword to the report, Group Chief Executive Sir Fred Goodwin recognises that understanding and fulfilling its responsibilities is both good business practice and important for the bank's reputation. He emphasises, however, that 'only if we can grasp the real nature of our responsibilities which stem from the impact financial services have on people's lives, can we make the right judgements and be sure of creating sustainable value.' The report reflects this emphasis on the responsibilities that arise from the bank's core activities as a financial services provider.

## 2 Reporting practices

### 2.1 Materiality

RBS identified the main issues for the report by consulting 'on a structured basis' with RBS group divisions and external stakeholders – a process which is vital to ensuring all the key material issues are addressed. It is a pity that no further details are provided on the engagement process, content of discussions and names of organisations with which RBS engaged. This would make it possible to determine whether the bank is engaging with a sufficiently broad scope of organisations, and gathering specialist input in key areas. RBS has 'taken into account' the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines, and their supplement for the financial services sector, but does not include a GRI index in the report making it difficult to identify gaps in information.

Overall, however, the report does address the key material issues, with an appropriate focus on customer-related issues such as responsible lending and insurance, access and inclusion and tackling financial crime. In these areas, more detailed information with regards the impact of policies and procedures in place (particularly with respect to the Equator Principles) would be of interest.

RBS is active in the UK and Europe, US and Asia Pacific and presents an overview of key activities in each of these areas. Yet there is no indication of how this affects the types of risk encountered in these diverse locations.

### 2.2 Transparency

RBS shows a commitment to transparency in its presentation of substantial quantifiable data in the areas of employee diversity, the environment and community investment. Of particular interest are the results of RBS' latest employee opinion survey which show strong progress since 2003, and high ratings in the areas of employment security, communication and managing people and change. RBS nevertheless discloses that it is behind the norm in terms of customer focus. RBS falls short in its commitment to transparency in its disclosure with regards the implementation of the Equator Principles. In future reports, RBS should attempt to illustrate more rigorously how the Principles are affecting environmental and social standards and the main challenges from the bank's perspective, perhaps through a series of detailed, anonymous case-studies of transaction approved and declined.

### 2.3 Comparability

It is a pity that the report does not include a GRI index as this does provide a means of comparison with other sustainability reports. Nevertheless, substantial quantifiable data is presented, normally for the present and previous year which allows progress to be monitored. Particularly in the area of community investment, RBS provides a helpful overview of key actions in the reporting year, achievements to date and future targets which provide a real sense of how the various projects are developing. There is also a useful set of tables at the back of the report, with insightful commentary on progress towards this year's targets. This would be an appropriate place to identify future, time-bound targets also.

## 2.4 Assurance and verification

An independent consultancy carried out limited assurance procedures, based on a review of data collection and reporting processes behind the sections on employees, the environment and community programmes. According to the International Standards on Assurance Engagements 3000 (ISAE3000), 'limited assurance engagement' is substantially narrower in scope than 'reasonable assurance engagement', based on inquiries of company personnel, analytical procedures and sample tests. The limited assurance engagement carried out during the reporting year marks the start of a phased introduction of more extensive assurance which should build on the credibility of future reports and provide more rigorous and informed feedback for continuous improvement purposes.

It is a pity that the independent assurance statement provided in the present report does not include further details of the programme of personnel inquiries/interviews, as well as critical feedback on the processes undertaken to compile the report, the underlying systems or performance. As the only external voice represented in the report, and having surely gained some insight into corporate responsibility management at RBS, the independent consultancy is in a position to provide informed commentary which would be of great interest to the reader and helpful in the evaluation of the report.

## 3 Management structure

The introduction to the report presents a brief outline of the corporate responsibility management structure at RBS. This structure allows for input from the board, as well as senior managers across the bank's divisions in matters of corporate responsibility. The main body responsible for CSR is the Corporate Responsibility Team which is part of the Directorate of Public Policy and Government Affairs. The Team is accountable to a Board Director, to whom it reports directly on a quarterly basis, as well as the Group Executive Management Committee and the Board, to whom it reports bi-annually. There is also a Corporate Responsibility Working Group which meets quarterly and includes representatives of all RBS divisions and all Head Office functions. A further indication of high level commitment to CSR is the RBS' Corporate Responsibility Policy which has been formally endorsed by the Board and incorporated into the Group's Corporate Standards Policy. The report could make more explicit how this policy is embedded through line management, and the links between corporate responsibility management across the three main regions.

## 4 Review of core issues

The structure of the report is based on RBS' key stakeholders, namely customers, employees, investors, suppliers, government and regulators. There are also sections on the environment and community investment. With regards responsibility towards customers, RBS has identified with the help of customers themselves and external organisations a number of key themes which are addressed in the report: responsible lending, selling insurance responsibly, listening and responding, clarity and transparency, access and inclusion, supporting customers in difficulty and tackling financial crime.

This review focuses on a selection of RBS' core issues, as follows: responsible lending and tackling financial crime, both of which form part of the bank's core business, and community investment.

### 4.1 Responsible lending

The availability of credit has the potential to generate huge benefits, but a society and economy burdened by over indebtedness is not sustainable. RBS acknowledges that it has a responsibility not to lend more than is affordable for the borrower. This responsibility is significant given the scale of RBS's lending: the Group accounts for 11% of personal loans in the UK and 13% of borrowing on credit cards. It is also the largest provider of banking services to businesses in the UK, serving over 95% of the FTSE100. In the US, RBS serves 60% of the Fortune 100 companies.

### 4.1.1 Policy

With regards personal and small business lending, RBS divisions each have their own policies in place. A number of established principles in making personal and small business lending decisions are listed in the report, including assessment of affordability based on a range of information sources.

Importantly, RBS was among the initial group of banks to adopt the Equator Principles (EP) – a set of nine voluntary principles to address the environmental and social issues that arise in financing projects. In doing so, the Group has agreed to conduct an environmental and social impact assessment of potentially damaging projects and the ability of the borrower to manage its sustainability impacts.

### 4.1.2 Programme

With regards personal and small business lending, RBS outlines three safeguards in place against mis-selling that relate to employee training, long-term incentives and assigning final lending authority away from the customer-facing employee. While it is good to see the question of safeguards addressed in the report, the information provided does not satisfactorily show how the conflict between employee incentives and mis-selling is resolved.

According to RBS, the Equator Principles are 'becoming increasingly embedded in our decision-making process.' Evidence is provided in the report to support this statement – specifically, RBS has employed external consultants employed to conduct training of marketing officers, credit officers and others involved in project finance. The inclusion of quantifiable data on the present and future training programme would add rigour to this section of the report. RBS also outlines four stages of the approval process for project loans, although it could make more explicit how adoption of the Equator Principles has affected this process. The main stages are as follows: initial screening by project finance marketing officers; detailed paper covering all aspects of risk, including environmental and social, for a Peer Group Review meeting; formal request for approval to lend; final decision by a divisional credit committee.

While RBS is to be commended for its adoption of the Equator Principles and the steps it is taking to implement them, further progress needs to be made for the Group to be ahead of the game amongst EP banks. For example, there is no indication that RBS is employing the best practice technique of applying the Principles to projects that fall below the \$50 million minimum threshold, or extending the EPs to project advisory, and to corporate lending, bonding and guarantees that ultimately support projects.

### 4.1.3 Performance

Performance is the weakest aspect of this section of the report. With regards personal and small business lending, there is little evidence of the impact of safeguards against mis-selling or the extent to which mis-selling remains a problem.

With regards the Equator Principles, it is a pity that RBS does not disclose quantifiable data on EP transactions (by category, type of facility, number, deal size etc.) as many signatories do. Of particular interest are the number of high risk transactions, and projects declined where non-compliance with the EPs was considered a contributory factor. This would help illustrate the extent to which the EPs are responsible for a real improvement in the environmental and social standards of projects financed by the bank. To this end, RBS should also consider in future reports (or on its website) including a series of detailed, anonymous case-studies, both of transactions approved and those declined. The challenges associated with EP implementation would also be of interest.

## 4.2 Tackling financial crime

According to RBS, the bank's overall framework and approach to managing financial crime – particularly fraud and money laundering – is consistent with the Financial Services Authority policy on Fraud and Dishonesty which was launched in 2004. During the year, RBS' Financial Crime department introduced revised governance arrangements throughout the banking divisions in the UK although there is no indication of why these revisions were necessary and what impact it is hoped they will have. RBS has also approved an anti-money laundering (AML) policy, supported by 'binding principles and detailed procedures' which set out minimum standards.

### 4.2.1 Policy

According to RBS, the bank's overall framework and approach to managing financial crime – particularly fraud and money laundering – is consistent with the Financial Services Authority policy on Fraud and Dishonesty which was launched in 2004. During the year, RBS' Financial Crime department introduced revised governance arrangements throughout the banking divisions in the UK although there is no indication of why these revisions were necessary and what impact it is hoped they will have. RBS has also approved an anti-money laundering (AML) policy, supported by 'binding principles and detailed procedures' which set out minimum standards.

### 4.2.2 Programme

Evidence is provided in the report to show how fraud prevention and anti-money laundering are embedded in the organisation. In 2004, an estimated 1200 employees received fraud training as part of their new starters training programme. In-depth training on fraud detection and handling was provided to 140 front-line staff. RBS also launched a counter fraud section on the Group intranet to provide additional help and support to employees. RBS also provides induction and refresher training programmes on anti-money laundering. In addition to these internal measures, RBS is an active member of the Association of British Insurers (ABI) Anti-fraud Committee, the Financial Crime Committee. The Group Money Laundering Reporting Officer, to whom employees suspicious of a customer's activities must submit a report, 'works actively' with government and law enforcement agencies on this issue.

RBS is also undertaking a number of measures to prevent identity theft, including regular warnings to customers through various media to keep their identity secure and the introduction of chip and pin cards. Following a rise in the number of cards stolen in the post, RBS increased the number of cards sent out by secure dispatch.

### 4.2.3 Performance

Again, RBS' performance in tackling financial crime is the weakest aspect of this section. In future reports, RBS should consider providing its readers with more context about the extent of the problem and challenges in dealing with it. RBS should try to demonstrate the impact of policies and procedures in raising awareness, preventing and dealing with cases of fraud and money laundering. The report should offer some insight into progress since the previous year, and plans going forward.

## 4.3 Community investment

RBS is developing an outstanding community investment programme. The programme focuses particularly on half a dozen projects designed to encourage financial responsibility, employment or enterprise creation, particularly amongst young people from disadvantaged backgrounds. These themes are clearly relevant to a financial services company and provide opportunities for RBS to contribute through its core competencies. At the same time, the programme provides exceptionally generous support to other causes identified by employees. While employee volunteering accounts for only a very small part of RBS' overall community investment, the bank's commitment is underscored by the fact that employees' volunteering experience is incorporated into his/her personal development plan.

### 4.3.1 Policy

In the UK, RBS is focusing its community investment efforts on three programmes. First, 'Money Matters', incorporating a number of initiatives to help people become more financially aware and capable. Second, 'Moving On' which promotes wider access to education, employment and enterprise creation. Third, 'Supporting Staff Giving' – RBS is unequivocal that its employee-giving scheme is 'the most generous in the UK.' In the US, RBS banks work to the requirements of the Community Reinvestment Act which encourages financial institutions to meet the needs of low/moderate income communities.

It is good to see that RBS monitors the performance of its community investment partnerships to continuously improve programmes. An interesting mechanism in this regard is RBS' annual workshop, bringing together all key charitable partners to discuss common issues and share best practices.

### 4.3.2 Programme

The report presents a clear overview of the key features of each of RBS' community investment initiatives, including project details, phase of the project and funding details, key objectives, key actions in the reporting year, key achievements to date and targets for next year. This is a highly effective way of providing the reader with the most relevant information for each project in a simple and straightforward manner, and allows the virtues of each project to speak for themselves.

- Money Matters – three projects underway. 'Face 2 Face With Finance' (F2F) is a financial education programme designed for use by teachers but providing opportunities for RBS employees to contribute up to 30 hours per year. The programme is underway in England and Wales, and has recently been launched in Scotland; 'Money Advice Trust', incorporating seven member agencies, provides free, confidential and impartial money advice with training places and information packs funded by RBS; The 'Lone Parent Helpline' is a UK free-phone helpline for single parents with significant funding from RBS.
- Moving On – five projects underway. 'Fairbridge' provides courses to young people from disadvantaged backgrounds to improve their opportunities and prospects. In addition to providing funds, RBS employees can become involved as mentors, participants and fundraisers; 'The Prince's Trust' provides training, mentoring and financial assistance to young people to help realise their potential. In addition to an extremely generous support package of £11 million – making the partnership one of the largest ever undertaken between a business and a charity – more than 800 RBS employees have taken part in volunteering; A recently launched project, 'Supergrounds', aims to improve existing school grounds, involving local unemployed groups in the process; 'AimHigher' encourages young people from families with no tradition of going to university to think about the benefits of higher education; 'The First Tee' is a World Golf Foundation initiative which provides young people with the opportunity to develop, through golf and character education, life-enhancing values such as integrity and sportsmanship.
- Supporting staff giving – Although employee volunteering accounts for only 3% of RBS' community investment, it is commendable that the bank recognises employees' volunteering experience which is mapped to the group's competency framework and linked to the employee's personal development plan. Further, RBS has recently launched the Chairman's Awards for Community Excellence, providing employees with senior level endorsement and encouragement to become involved in community activities. The RBS group also has by far the most generous payroll giving scheme in the UK, double-matching all employee donations, and provides 'Community Cashback Awards' to a maximum of £1,000 for those causes supported by employee volunteers or fundraisers.

### 4.3.3 Performance

Concrete evidence of the performance of community investment programmes is clearly provided in the report. According to London Benchmarking Group criteria, RBS' total community spend is over £46 million – 61% from cash donations and 32% from cash in kind. Employee volunteering accounts for only 3% of spend, but this looks set to increase judging by the targets established. The remaining 4% covers management costs.

A more detailed breakdown of performance is provided for each project. The impact of RBS' specific contribution is clearer in some cases than in others. Over 350 RBS group employees took part in F2F, for example, which has provided 500,000 children in over half of secondary schools in England and Wales with financial education. RBS' investment also funded 5,220 training places and 100,000 self-help packs for the Money Advice Trust.

## 5 Certification

RBS does not systematically present certification and awards received during the reporting year which would provide ease of reference. Nevertheless, the bank has a number of notable achievements, including 2nd equal ranking on the Dow Jones Sustainability World Index for the banking sector. RBS is also a member of the UN Global Compact.

## 6 Ethical Insight's comment

3½ Star Rating: ★★ ★ ☆

### *Reporting practices*

- The report addresses the key material issues, with an appropriate focus on customers. In line with best practice, RBS conducted a structured stakeholder engagement process which is vital to ensuring that material issues are adequately covered – it is a pity that few further details are provided as to the nature of the engagement process, types of organisations involved etc.
- RBS shows a commitment to transparency in its presentation of substantial quantifiable data in the areas of employee diversity, the environment and community investment. The report would benefit from further disclosure with regards the impact of the Equator Principles, through more quantifiable data and case-studies.
- The comparability of the report could be enhanced through inclusion of a GRI index, but on the whole sufficient quantifiable data is provided in a manner that makes it easy to interpret. There is also a useful set of tables at the back of the report, with insightful commentary on progress towards this year's targets – this would be an appropriate place to add future, time-bound targets.
- RBS is in the early stages of developing a rigorous assurance process. In future reports, RBS might ask its independent assurers to provide further details of the assurance process, as well as critical feedback on how the bank might improve management and performance in relevant areas.

### *Management structure*

RBS has established a corporate responsibility management structure which facilitates input from the board, as well as senior managers across the bank's divisions. Links within the corporate responsibility management structure across the three main regions could be made more explicit.

### *Management systems*

This review considers RBS' policy, programme and performance in three key areas:

- **Responsible lending:** The report includes a highly relevant discussion of safeguards in place to ensure responsible lending. It fails, however, to show convincingly how the bank has resolved the conflict between employee incentives and mis-selling. There is a need for more rigorous discussion of the impact of these safeguards and the extent to which irresponsible lending remains a problem. With regards the Equator Principles, the bank's assertion that they are 'becoming increasingly embedded in our decision-making process' is substantiated by the training programme in place, although again there is a lack of evidence to show the impact of Principles on social and environmental standards and the challenges being faced.
- **Tackling financial crime:** In technical areas such as financial crime, RBS could inform its readers with more detailed contextual information. Evidence is provided in the report to show how fraud prevention and anti-money laundering are embedded in the organisation but again, there is little context as to the extent to which further resources are needed to combat this problem, number of cases of non-compliance, key challenges etc. The report should also offer some insight into progress specifically during the reporting year, and plans/targets going forward.
- **Community investment:** RBS is developing an outstanding community investment programme centred on three main areas, providing unity and focus, as well as flexibility for employees to identify their own causes which the bank supports generously. In total, RBS contributed an impressive £46 million to communities in the reporting year. The report presents a clear overview of the key features, objectives and achievements of each project, providing a satisfying picture of how they are all developing.

### *Certification*

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## 7 Appendices

### 7.1 Maplecroft's Ethical Insight report review criteria

Maplecroft's Ethical Insight report reviews are based on a four-pillar framework, taking into account reporting practices, corporate responsibility management structure, management systems (policy, programme and performance), and certification. The review of management systems considers the company's core issues as identified by the company in its report and by Maplecroft on the basis of the company's industry sector. Maplecroft is currently developing a map of core issues by sector which will be available shortly. The report review criteria are not comprehensive, but are designed to highlight the most significant practices and performance within each company, as well as important omissions and areas for improvement in future reporting.

- **Reporting practices** are reviewed on the basis of four key reporting principles:
  - **Materiality:** Does the report cover all the key issues relevant to the sector? Does the report provide the context and relevance of each issue to the company? Has the company engaged with key stakeholders in identifying and exploring material issues?
  - **Transparency:** Does the report disclose regulatory non-compliance? Does the report make other sensitive or groundbreaking disclosures? Is there public reporting at the local level?
  - **Comparability:** Does the company report in accordance with the GRI guidelines or other external metrics? Have internal metrics and data collection/management systems been developed? Does the report clearly present key indicators and targets?
  - **Assurance and verification:** What type of assurance and verification are provided? What is the scope of assurance and verification? What are the feedback / results of the assurance and verification process?
- **Management structure** is assessed on the basis of three main criteria: Is there a board level CSR Committee (or equivalent) in place? Is there a dedicated CSR network in place? Has the company signed up to any best practice principles or external bodies?
- **Management systems** incorporate principles (governance level), policies (strategic level), procedure and guidance (executive level) and practise (operational level). For each of the company's core issues, Maplecroft reviews policy, programme and performance.
- **Certification** refers to the company's listing on sustainability indices, such as the FTSE4Good and Dow Jones; external certification such as SA8000 and ISO14001; and any external awards received during the reporting year.

## 7.2 Previous Ethical Insight report reviews

Ethical Insight includes a review of a company sustainability report in each fortnight's edition. These reviews, together with the original report, can be accessed from the Maplecroft website at <http://www.maplecroft.net>.

Previous Maplecroft reviews are as follows:

- ABN Amro sustainability report 2003
- Alcan corporate sustainability report 2004
- Alcatel - Sustainable Development Report 2004
- Anglo American Report to Society 2004
- BAA annual report 2003/2004
- BAE Systems corporate responsibility report 2003
- BBC Corporate Sustainability Report 2004
- BP Sustainability Review 2004
- Cadbury Schweppes Corporate and Social Responsibility Report 2004
- Citigroup Citizenship Report Review 2004
- Co-operative Group corporate responsibility report 2003
- HSBC Corporate Social Responsibility Report 2004
- Hydro corporate social responsibility annual report 2003
- Marks & Spencer Corporate Social Responsibility Report 2005
- [NEC CSR Report 2005](#)
- Nike Corporate Responsibility Report 2004
- Rio Tinto 2004 Sustainable Development Review
- Royal Mail corporate responsibility report 2004
- RWE corporate responsibility report 2003
- Shell Foundation 'Enterprise solutions to poverty' Report 2005
- Standard Chartered 2004 Corporate Responsibility Report
- TPG annual report 2003
- TPG Corporate Sustainability Report 2004
- Unilever Social and Environmental Reports 2004
- Vodafone corporate social responsibility report 2003/04
- WestLB Sustainability Report 2005
- Westpac Stakeholder Impact Report 2004

### 7.3 Ethical Insight's sustainability reporting services

The Ethical Insight team at Maplecroft works with global organisations across all sectors, providing a range of specialist corporate responsibility advisory services. Further details about the wider range of Maplecroft services and the Maplecroft team are available at <http://www.maplecroft.net>.

In the area of sustainability reporting, we have considerable expertise in the full range of management systems that underlie effective social and environmental reporting, including auditing, indicators, monitoring, impact assessment and performance management. Maplecroft is also experienced in report writing, verification and assurance, having contributed substantively to several award winning reports.

The Ethical Insight team is also able to provide independent assurance and verification services of the highest standard, including in accordance with GRI and AA10000 criteria.

Maplecroft has developed a number of proprietary tools to assist companies in the reporting process. Specifically, we have developed the *Principles-plus multi-audit etool*, a practical and comprehensive auditing method that brings together a host of social and environmental standards, international best practice principles and instruments of corporate citizenship in a set of worksheets. The tool is designed to help companies assess their conformance with best practice requirements and identify the specific areas in which performance can be improved. A corrective action request form assists in the performance management process.

Maplecroft has also developed a *Human rights monitoring mechanism*, a straightforward electronic human rights survey, which can be used and adapted by companies to provide a detailed picture of human rights risk in its operations around the world. The survey assesses the human rights situation and management systems in place at the country level which, together with external country and issue specific human rights research, allow for a detailed analysis of the company's risk of complicity in human rights violations, and specific recommended action points.

The Ethical Insight team comprise fully trained and experienced SA8000 and ISO14001 auditors.

Please call us or email to discuss how our award winning Ethical Insight team might help:

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