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‘Inclusive Innovation’ Offers Opportunity for the Financial Sector to Grow and Re-engage with Society: New Report

San Francisco, December 16 2011 — Global banking and financial sector experts see opportunities for the financial sector to grow and re-engage with society through “inclusive innovations,” a new report launched today, *The Future of Finance*, has found.

Economic and regulatory uncertainty in many countries and a degree of popular resentment exemplified by protests and a decline in reputation¹, presents an opportunity for financial sector companies to engage more proactively with external stakeholders. According to the report, if they “turn their innovation outwards”, banks and other financial services firms will find ways to grow their businesses and build positive relationships throughout society.

Other sectors – ranging from food, to pharmaceuticals, to mining – that have suffered reputational difficulties have sought in the past to deepen their engagement with external stakeholders as a way to rebuild trust. Many financial services thought leaders interviewed for the *Future of Finance* study now say the industry could do more to engage with a wider array of stakeholders.

The report’s authors, the Center for Responsible Business at the Haas School of Business, University of California-Berkeley and research consultancy GlobeScan, interviewed 60 experts inside and outside the financial services industry to explore how the industry will evolve over the next decade.

The researchers found that:

- Experts agreed on the fundamental importance of financial services, and its potential to be a very positive influence in society.
- Many experts think the financial services sector could go further, and demonstrate that its innovations deliver benefits to the wider society above and beyond their profitability.
- Financial institutions may need to broaden and deepen their engagement with stakeholders including customers, regulators and civil society.
- There is concern that regulatory action has been slow and indecisive since 2008—and not always directed at the most important drivers of the financial crisis.
- New financial regulation should prioritize consumer protection, management of systemic risks and global coordination.

Based on the expert opinions they heard, the authors concluded that three potential scenarios for the future of the sector exist:

¹ As measured by a global public opinion survey conducted by GlobeScan, July-September 2011.

- “Risky business as usual,” in which regulation and industry behavior do not change substantively, industry-society relations remain challenging and the risk of economic shocks remains high.
- “Back to boring,” in which significant regulatory tightening restricts financial services to a “utility” role and it becomes less vibrant and profitable, but more stable.
- “Inclusive innovation,” in which the industry seeks opportunities for growth with shared return to society. In addition to a collaborative approach to regulation, this could minimize antagonism between the industry and its critics, and show a path to renewed growth.

One of the major innovation opportunities identified by experts is financial inclusion – addressing the world’s 2.5 billion un- or under-banked adults. Referring to this issue, study respondent David Blood, Co-Founder and Senior Partner of Generation Investment Management, said: “It’s an extraordinary challenge. It may not be profitable in our existing models. We need new models and we need to maximize the enabling aspects of finance and minimize challenges.”

Besides financial inclusion, experts see potential for financial services companies to leverage their expertise and build on existing efforts to deliver social benefits through:

- Creating “blended return” investment products, such as those that invest in double-bottom line ventures.
- Structuring deals that pool demand and funding for the purchase of products and services, like new vaccines, to stimulate R&D.
- Creating investment vehicles, like funds with screens for positive environmental and social performance, to attract institutional investors with a social development mandate.
- Developing and supporting markets for environmental commodities like carbon.

Jo Mackness, Executive Director of the Center for Responsible Business, said “not surprisingly, we heard broad agreement from the experts around the critical role banks play in a thriving economic system; many also thought more could be done to go beyond this fundamental role and embed delivering social value into the core business of banks.”

“Many financial services thought leaders we interviewed say the industry could do more to engage with a wider array of stakeholders.” says Kellie McElhaney, professor at the Berkeley-Haas School of Business and Faculty Director at the Center for Responsible Business. “We’ve seen other sectors including the apparel, chemical and electronics industries effectively turn to stronger stakeholder engagement as a way to rebuild trust.”

GlobeScan President Chris Coulter, adds “there is potential – a big opportunity, even – for financial services companies to do a lot of business in ways that will be positive for society. With 2.5 billion unbanked people around the world, the financial sector should be pursuing the growth it needs by turning its innovation outward and leveraging it to address social and environmental problems.”

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About the Study:

The Future of Finance presents and consolidates a set of highly informed and influential perspectives on the financial sector, representing the diversity of internal and external stakeholder viewpoints. It also aims for global coverage, incorporating stakeholders from emerging as well as developed markets.

The study included in-depth interviews with 60 thought leaders representing the financial services sector, government, multilateral organizations, academia / think tanks, and civil society. All were selected for their expertise, influence, and ability to represent an important constituency for the financial sector. The interviews focused on three broad topic areas: the fundamental role that banks and other financial sector institutions play in society; the factors that influence a stable and profitable operating environment for the industry; and expectations for how the industry will evolve in the coming decades.

The study was made possible by five financial institutions - BBVA, Barclays, Citi, Goldman Sachs, and TD Bank Group - who supported the research both financially and intellectually, through interviews with select executives.

About the Center for Responsible Business, Haas School of Business, University of California-Berkeley:

The Center for Responsible Business at the University of California-Berkeley Haas School of Business is an "action-tank" that brings students, companies and faculty together to explore issues of corporate responsibility and sustainability and inspire leaders who redefine good business.

For more information visit <http://responsiblebusiness.haas.berkeley.edu/>

About GlobeScan:

GlobeScan supports leadership organizations with evidence-led strategic counsel to manage reputation, build brand value, and create effective sustainability strategy. Established in 1987, GlobeScan is an independent, management-owned company with offices in London, San Francisco and Toronto.

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