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CHANGES IN MATERIAL ASPECTS ANALYZED IN THE SUSTAINABILITY REPORTS OF INTESA SAN PAOLO GROUP AND BANCA INTESA BEOGRAD FOR THREE YEARS

Abstract: The information is considered to be material if there is a significant impact on an organization's strategy and if it reflects the interests and expectations of organization's stakeholders. An organization, with its stakeholders should also determine what material is, to whom, and at what point. Intesa SanPaolo Group and Banca Intesa Beograd, the member of the SanPaolo Group, prepare sustainability reports on the regular basis over the years. This paper analyses the changes in material aspects over the period of three years, as presented in official sustainability reports for 2013, 2014 and 2015 of the banking group and the individual bank – the member of the banking group.

Key words: Material aspect; The relationship between banking group and its bank-member policies;

1. Introduction

Banca Intesa Belgrade (the Bank) has been issuing reports on corporate social responsibility since 2010. Moreover, the Bank applies the reporting standards of internationally accepted Global Reporting Initiative (GRI) methodology since 2013. The Bank is 100 percent owned by Intesa Sanpaolo group (the Group), one of the top banking

groups in the euro zone. Intesa Sanpaolo's strategy is geared towards solid and sustainable value creation for all stakeholders with whom the Bank has relations (Group website/Strategy). The Group considers its sustainability reports are important means of monitoring the achieved against corporate values and the set sustainability targets. The Group's Sustainability Report for 2013 was drawn up in compliance with the "Sustainability Reporting Guidelines" of the Global Reporting Initiative (GRI 3) and the "Financial Services Sector Supplements". Sustainability Reports for 2014 and 2015 were drawn up in compliance with the GRI G4 version of the same guidelines.

The Group depicted its business model in the Sustainability Report for 2014 and also quite the same one in the Sustainability Report for 2015. This business demonstrates the increasing integration of social and environmental issues into those related to business. The sustainability reports concentrate on the issues that are most material to the Group core business and the Group's stakeholders.

"Sustainability reporting helps organizations to set goals, measure performance, and manage change in order to make their operations more sustainable." (Global reporting initiative, 2015, p. 3). Preparing a sustainability report commence with the process of identifying material aspects, i.e. "aspects that reflect the organization's significant economic, environmental and social impacts or substantively influence the assessments and decisions of stakeholders." (Global reporting initiative, 2015, p. 7). The organization is responsible for determining what it treats as material.

2. Methodology and data collection

The purpose of this paper is to identify issues that are recognized as material for the purpose of preparing sustainability reports by the Bank and by the Group, whether these issues are similar or not and whether they change over time, both at the Bank level and at the Group level.

The analysis of materiality is based on the publicly available sustainability reports for 2013, 2014 and 2015, both for the Bank and for the Group, as presented on related websites. Data presented in material matrices for each year is compared on the one by one basis, both on the Group level and on the Bank level. Moreover, the analysis includes the comparison and changes of priorities from year to year.

3. Results and discussion

3.1 Aspect of materiality at the Group level

The Group's 2015 Sustainability Report states that identification of the material issues was performed through a materiality analysis, in accordance with the "G4 Sustainability Reporting Guidelines" of GRI, the main reference standard for sustainability reporting (Intesa Sanpaolo, 2016). The materiality analysis was also integrated with the International Integrated Reporting Council (IIRC) reporting framework, encompassing the introduction of the six capitals (financial, social and relational, intellectual, infrastructural, human and natural) as well as other elements that are considered material and which increase the Group supervision of the development of the external environment. To prioritize the issues identified, each issue was assessed, on the one hand in relation to its significance to business strategies, and on the other hand, in relation to the degree to which it represents the interests and expectation of stakeholders.

The macro areas considered to be priorities for 2015 on which the Sustainable Report discusses the related matters in detail, the management method, significant indicators and the relationship between said issues and the business plan for the year are the same one as considered for 2014 (Intesa Sanpaolo, 2015). These are:

1. Protection of solidity and profitability (This is the Group's priority objective)
2. Business Risk Management
3. Access to credit and savings management

4. Integrity and rigour in corporate conduct
5. Offering a valued service to customers
6. Human resource development and management
7. Climate change

The relations with suppliers and the community did not qualify as material issues for 2014, although the Group stated that it recognized their high social and environmental value and therefore provided detailed disclosures in the related sustainability report.

Material issues for 2013 defined the following detailed aspects (Intesa Sanpaolo, 2014):

1. Management of business risks: Monitoring of social and environmental risks in investment and lending activities; Reputation protection; Adequacy of the internal control system;
2. Protecting the Group's solidity and profitability: Asset consolidation; Dividends and attractiveness of the stock on the market; Prudential liquidity management; Cost control;
3. Job protection: Productivity and cohesion; Employment policies and responsible management of restructuring processes;
4. Financial inclusion and economic empowerment: Support to families and elderly people, support to first home access; Financial inclusion of young people, workers on temporary contracts and customers in financial difficulties; Support to the third sector and social enterprises;
5. Support for the business system: Access to credit for businesses; Support to start-ups and strategic projects; Strengthening of SME's competitive skills;
6. Effectiveness of the governance system: Governance geared towards the creation of long-term value; Protection of all shareholders' interests within the Board; Top management rules and incentives for long-term growth;
7. Offering valued service to customers: Evolution of the service model and relationship channels; Quality of products and services; Dialogue and interaction;

8. Employees' enhancement: Professional training and development; Recognition and reward of employees' merit; Enhancement of diversity;
9. Integrity and rigour of the company conduct: Compliance with Standards; Fight against corruption; Proper fulfilment of lobbying activities and influence on the regulatory policies of financial markets,

The main differences in 2014 compared to the 2013 materiality matrix refer to issues of strong significance in the 2014-2017 Business Plan accentuated that the support to the business system becomes an even more strategic success factor for the Bank. Another issue was focus on offering value to customers as crucial for the Group sustainability.

The form of the materiality matrix has been slightly changed during these three years. Two main axes are Y-axis which show the impact on group's strategies, and X-axis which shows the importance for stakeholders. The materiality matrix for 2015 is divided in nine (3x3) equal quadrants. The materiality matrix for 2014 and 2013 are divided in 16 equal (4x4) quadrants. In 2015 and 2014, axes are graded as "low", "medium" and "high" while in 2013 axes are graded as "low", "average" and "high".

3.2 Aspect of materiality at the Bank level

Materiality aspects in 2015 (Banca Intesa, 2016) and 2014 (Banca Intesa, 2015) at the Bank level are the same one recognized at the Group level. The Bank did not make any prioritization of these aspects.

Material issues in 2013 at the Bank level defined the following detailed aspects (Banca Intesa, 2014):

- Customers: The development of service models and channels in accordance with the needs of clients; The quality of products and services; Customer satisfaction; Access to credit for businesses; Strengthening SME sector; Financial inclusion of vulnerable groups; Support clients in financial difficulties;

- Employees: Training and Professional Development; Recognizing and rewarding merit; Welfare, health and safety; Inclusion of employees in company life; Work-life balance;
- Suppliers: Transparency and fairness with suppliers; Cooperation and relationship with suppliers; Promotion and respect for ethical and environmental standards in the supply chain; Community;
- Promoting culture and art: Support for education and youth development; The fight against poverty and social exclusion;
- Natural environment: ESG criteria in supplier selection; Optimization of use of natural resources; Reduction of greenhouse gas (GHG) emissions; Customer support for improving energy efficiency;

3.3 Migration of materiality aspects priority over the period

Migration of materiality aspects priorities over the period is assessed by the movements of order of their place onto materiality matrices for 2013, 2014 and 2015. Assessment process is based on three parameters: (i) serial number, where the most relevant subjects with highest value on both axes of the matrix are denoted by 1, the next one below on the Y-axes, or the next one left on the X-axes by 2, etc.; (ii) the significance of impact to strategies and relevance to stakeholders denoted by high, medium and low according to the spot on the materiality matrices; and (iii) the priority denoted by the Group itself, as explained in the corresponding report.

As depicted on the materiality matrix for 2013, the Group identified 9 aspect of high priority out of 14 that are deemed material in that year, 10 out of 12 material aspects are recognized as being of high priority in 2014 , and 13 out of 15 material aspects are recognized as being of high priority in 2015.

The “Protection of the Group solidity and profitability is recognised as the aspect with the highest impact on the Group strategies in all three

years, followed by the “Business risk management” aspect and the “Support to the business system”. From the stakeholders’ standpoint, the most relevant aspects over the same period relate to following two issues: “Job protection” and “Support to the business system”.

“Corporate conduct, integrity and discipline” and “Financial inclusion and economic empowerment” which were quite significant issues both for the Group and for the stakeholders in 2013 lost a lot on their priorities in the later period. Moreover, issues like “Development of social capital in the areas where the Group operates”, “Effectiveness of the governance system” and “Reduction of direct environmental impact” which were rated with low to medium impact on the Group strategies are not recognized as material aspects at all in the later period.

On the other hand, three new materiality aspects appeared in 2015. These are: “Product responsibility”, “Customer service innovation” and “Training and professional development”. This transition is explained by the launch of the Group’s new service model, included in the 2014-2017 Business Plan, which enhanced issues related to the quality of customer relations and of the products and services offered, as well as professional training and development that have been identified as key factors for the implementation of the Group’s new service model.

The Group material aspect and their prioritization over the period 2013-2015

2015	2014	2013
HH P 1.2. Protection of the group solidity and profitability	HH P 1.2. Protection of the group solidity and profitability	HH P 1.2. Protecting the Group’s profitability
HH P 1.5. Business risk management	HH P 1.3. Business risk management	HH P 1.4. Management of business risks
HH P 2.1. Product responsibility		
HH P 3.1. Support to	HH P 2.1. Support to	HH P 3.2. Support to

the business system	the business system	the business system
HH P 3.3. Service quality	HM P 5.5. Offering a valued service for customers	MM P 6.5. Offering a valued service to customers
HH P 3.6. Customer service innovation		
HH P 4.4. Training and professional development		
HH P 5.5. Employee' enhancement	HH P 3.3. Employee' enhancement	AH P 5.3. Employees' enhancement
HH P 6.3. Integrity and rigour in corporate conduct	MH P 6.2. Integrity and rigour in corporate conduct	HH P 3.2. Corporate conduct, integrity and discipline
HM P 6.7. Financial inclusion and economic empowerment	MH P 6.4. Financial inclusion and economic empowerment	HH P 3.4. Financial inclusion and economic empowerment
MH P 7.3. Job protection policies	HH P 4.1. Job protection	HH P 2.1. Job protection
MH P 8.5. Quality of life in the company	MH P 6.3. Quality of life in the company	MH 10.4. Quality of the life in the company
MM P 9.8. Climate change	MM P 6.7. Climate change	
MM 10.9. Responsible management of the supply chain	MM 7.6. Relation with suppliers	MH 9.2. Responsible management of the supply chain
LM 11.7. Relation with the community	MM 8.5 Relation with the community	
		LM 11.6. Development

		of social capital in the areas where the Group operates
		MH P 4.1. Effectiveness of the governance system
		MM 7.7. Green economy development
		MM 8.8. Reduction of direct environmental impact

Notes:

(i) H – high; M – medium; L – low;

(ii) HH first letter designates “impact to bank’s strategies”, and the second “perceived relevance stakeholder relevance”

(iii) 1.1. the first number designates the order of impact to the Group strategies, and the second number designates the order of the perceived stakeholder relevance, as depicted in the Materiality analysis matrix. Number 1 has the highest impact and the highest relevance.

4. Conclusions

The Group summarizes the results of the materiality analysis in the materiality matrix for the year, which lists the positioning of the issues with respect to the degree of impact of the Group’s strategies defined as possible financial or reputational impact on the Group (Y-axes), and to the relevance and priority given by the Group’s stakeholders (X-axes). Issues having a high value on both axes are those on which the Group focuses its attention over the year.

The Group’s states that identification of the material issues was performed through a materiality analysis, in accordance with the relevant GRI Sustainability Reporting Guidelines, the main reference standard for sustainability reporting. The Group also applies other reporting

guidelines, like <IR> framework developed by International Integrated Reporting Council (IIRC).

The number of the Group material aspects has changed over the period, as well as the number of issues that are considered to be of high priority. In 2013, 9 out of 14, in 2014, 10 out of 12, and in 2015, 13 out of 15 material aspects are recognized as being of high priority. The “Protection of the Group solidity and profitability is recognised as the aspect with the highest impact on the Group strategies in all three years, followed by the “Business risk management” aspect and the “Support to the business system”. From the stakeholders’ standpoint, the most relevant aspects over the same period relate to the “Job protection” and “Support to the business system”. Materiality aspects which are generally recognized of lower level priority in 2013 disappeared as material issues in the following years. On the other hand, three new materiality aspects appeared in 2015. This transition is explained by the launch of the Group’s new service model, included in the 2014-2017 Business Plan, which enhanced issues related to the quality of customer relations and of the products and services offered, as well as professional training and development that have been identified as key factors for the implementation of the Group’s new service model.

The Bank also identifies material aspects in its own sustainability reports. Issues recognized as material in 2013 significantly differ from those recognized by the Group, as the Bank perceived additional issues related to employees and natural environment as its priority in that time. In 2014 and 2015 material aspects recognized by the Bank are the same ones as those recognized by the Group.

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**PROMENE U MATERIJALNO ZNAČAJNIM ASPEKTIMA
RAZMATRANIM U IZVEŠTAJIMA O ODRŽIVOSTI INTESA
SANPAOLO GRUPE I
BANKE INTESA BEOGRAD TOKOM PERIODA OD TRI
GODINE**

Apstrakt:

Informacija je materijalna ako ima značajan učinak na strategiju organizacije i ako izražava interes ili očekivanje interesnih strana organizacije. Organizacija, zajedno sa svojim interesnim stranama, treba takođe da utvrdi šta se smatra materijalnim, za koga i u kom trenutku. Intesa SanPaolo Grupa i Banca Intesa Beograd, članica SanPaolo Gruep, redovno pripremaju izveštaje o održivosti već duži niz godina. Ovaj rad razmatra promene u materijalnim aspektima prikazane u izveštajima o održivosti za 2013., 2014. i 2015. godinu koje su izdale Intesa SanPaolo Grupa i Banca Intesa Beograd-članica Grupe.

Ključne reči: Aspekt materijalnosti; Odnos između politika bankarske grupe i njene članice;