

United Nations Environment Programme Finance Initiative (UNEP FI)

Principles for Sustainable Insurance (PSI)

HSBC Progress Report 2016

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PSI
Principles
for Sustainable
Insurance



UNEP
FINANCE
INITIATIVE

A global sustainability framework and initiative of the United Nations Environment Programme Finance Initiative

UNEP FI Principles for Sustainable Insurance (PSI) Progress Report 2016

This document outlines our commitments and progress in 2016 towards implementing the Principles for Sustainable Insurance, highlights issues of importance to Insurance and our future aspirations. Our report articulates what sustainability means to HSBC and how we manage it, both in terms of incorporating aspects of sustainability throughout our business and how our sustainability commitments shape the way we do business.

Overview

HSBC is one of the world's largest banking and financial services organisations. With around 4,400 offices in both established and emerging markets, we aim to be where the growth is, connecting customers to opportunities, enabling businesses to thrive and economies to prosper, and, ultimately, helping people to fulfil their hopes and realise their ambitions.



We serve roughly 37 million customers through our four global businesses: Retail Banking and Wealth Management, Commercial Banking, Global Banking and Markets, and Global Private Banking. Our network covers 70 countries and territories in five geographical regions: Europe, Asia, Middle East and North Africa, North America and Latin America. HSBC is active on a range of social media channels including Twitter, Facebook, LinkedIn, YouTube, WeChat and Instagram – in more than 20 countries. Listed on the London, Hong Kong, New York, Paris and Bermuda stock exchanges, shares in HSBC Holdings plc are held by about 204,000 shareholders in 133 countries and territories.

Our global businesses

Retail Banking and Wealth Management ('RBWM')

We help millions of people across the world to manage their finances, buy their homes, and save and invest for the future. Our Insurance and Asset Management businesses support all our global businesses in meeting their customers' needs.

Adjusted profit before tax

\$5.3bn

Risk-weighted assets

\$115.1bn

Commercial Banking ('CMB')

We support approximately two million business customers in 54 countries with banking products and services to help them operate and grow. Our customers range from small enterprises focused primarily on their domestic markets, through to large companies operating globally.

\$6.1bn

\$275.9bn

Global Banking and Markets ('GB&M')

We provide financial services and products to companies, governments and institutions. Our comprehensive range of products and solutions, across capital financing, advisory and transaction banking services, can be combined and customised to meet clients' specific objectives.

\$5.6bn

\$300.4bn

Global Private Banking ('GPB')

We help high net worth individuals and their families to grow, manage and preserve their wealth.

\$0.3bn

\$15.3bn

HSBC provides a broad range of insurance products and services to individuals and organisations worldwide with valuable protection against risks and ways to build future wealth. These insurance products are either

underwritten by HSBC's own insurance manufacturing businesses or sourced from selected specialist insurance partners. Products are available through banking and insurance subsidiaries through a variety of channels, including the internet, telephone and face-to-face. Insurance is an important business for HSBC, with products positioned to help customers achieve their financial aspirations.

We have life insurance manufacturing countries which include UK, France, Mexico, Argentina, Hong Kong, Singapore and Malta. We also have joint ventures in China, Malaysia, India and Saudi Arabia. In non-life insurance and where we lack risk appetite and scale to manufacture life insurance, we have entered into long-term exclusive distribution agreements with industry leaders in North and Latin America, Middle East, Europe and Asia.

At HSBC, how we do business is as important as what we do. We seek to build trust-based and lasting relationships with our many stakeholders to generate value in society and deliver long-term shareholder returns. The scale of our operations makes our values all the more important. We are committed to conducting our business in a way that delivers fair value to customers, strengthens our communities and helps ensure a properly functioning financial system.

Sustainability at HSBC

Sustainability means building our business for the long term by balancing social, environmental and economic considerations in the decisions we make. This enables us to help businesses thrive and contribute to the health and growth of communities.

Sustainability underpins our strategic priorities and enables us to fulfil our purpose. Our ability to identify and address environmental, social and ethical developments which present risks or opportunities for the business contributes to our financial success.

Considering sustainability when we make decisions helps us to protect our reputation, drive employee engagement and manage the risk profile of the business. Supporting the shift to a low-carbon economy can also help reduce operational costs and secure new business.

For further information on HSBC Holdings Plc's sustainability policies, activities and performance, visit the [sustainability](#) content on HSBC.com

UNEP FI Principles for Sustainable Insurance (PSI)

HSBC was involved in the original drafting and development of the PSI Initiative between 2009 and 2011 which was launched at the UN Conference on Sustainable Development (Rio+20) in 2012. The Principles represent a significant opportunity for our insurance business to take a further step toward meeting the expectations of our customers, shareholders, employees and other stakeholders globally.

Our expectation is that the PSI Initiative will become the global framework and standard by which the insurance industry can be measured on its contribution towards sustainable development. With this aspiration HSBC Insurance Holdings became a signatory to the PSI with the support of Group Chairman, Douglas Flint, on 23 April 2013. This was stated in HSBC's Annual Sustainability Report 2013. Progress updates on the initiative have been provided in the annual reports for 2013, 2014 and 2015 which are available on the UNEP FI site. We continue to align and develop similar initiatives in line with our stated sustainability programs and consequently we feel the PSI initiative is aligned with our values.

Our management team and Insurance Executive Committee are committed to this initiative and to progressively integrate environmental, social and governance (ESG) issues across our processes and geographies. We are also committed to disclose our progress in implementing the Principles on an annual and public basis.

Progress in 2016

Below is a summary and examples of progress HSBC has made against each of the four principles in 2016.

Principle 1: *We will embed in our decision making environmental (E), social (S) and governance (G) issues relevant to our insurance business*

1.1 Customer Care Commitment

We continue to make good progress in delivering on our commitment to being a responsible lender and reinforcing the importance of mortgage customers having the right protection in place via a 'fair value' product offering. This work has been extended to include engagement with our insurance partners to offer an improved customer experience through whichever sales channel the customer chooses. In 2016 a specific Global project was initiated to further improve the customer experience whether it is from a pure educational view or through a more simplified application process.

In the spirit of treating customers fairly, the primary objective remains to educate the customer on the importance of respective products and, the ease in which they can be purchased and there is no requirement for the customer to purchase appropriate insurance from HSBC.

1.2 Diversity and Inclusion (D&I)

HSBC is committed to a diverse and inclusive culture where employees can be confident their views are encouraged, their concerns are attended to, they work in an environment where bias, discrimination and harassment on any matter (including gender, age, ethnicity, religion, sexuality and disability) are not tolerated, and advancement is based on merit. Our diversity helps us support our increasingly diverse customer base and acquire, develop and retain a secure supply of skilled and committed employees.

We believe that diversity brings only benefits for our customers, our business and our people. The more different perspectives we have, the better equipped we'll be to meet the demands of our hugely diverse global customer base – whether they are starting a business for the first time, exporting to new markets, planning for their retirement, or looking for financial products compliant with their religious beliefs.

HSBC's focus is an inside out approach to include our employees and culture, (addressing bias, attract and retain a diverse workforce, and leveraging our employee resource groups) with the outputs from this extended to how we make better products and services that reflect the diverse society and diverse needs of customers.

In Insurance we have a project underway to offer products and services that whenever possible do not discriminate our customers due to any point of personal difference, ensuring the products we offer are relevant to different customer circumstances.

Socially we have seen changes to traditional family structures, such as the case of *de facto* relationships where a growing number of people in society are choosing not to get married or to delay getting married. Same sex marriage has been legalised in many countries, for many markets where this is not the case we are seeing increasing public support for changes in legislation to support this. There is therefore, in some markets some misalignment in the cover the insurance industry is able to provide to the customers we serve to protect in particular regarding relationship status and financial dependents.

During 2015 we designed, piloted and refined a Diversity and Inclusion (D&I) framework which includes product literature, information collection and insurance coverage. In 2016 countries have been reviewing their existing products against the framework whilst working within their legal and regulatory environment.



Examples of how we're progressing the work include Hong Kong where in 2016 we launched a new high end Medical product which offers a family discount to married couples, same sex partners and *de facto* relationships. In Mexico in 2016 we expanded the definition of children to more broadly cover financial dependents which will enable adopted children to be beneficiaries for our term and protection policies. Further product changes have been identified in other countries and will be progressed throughout 2017.

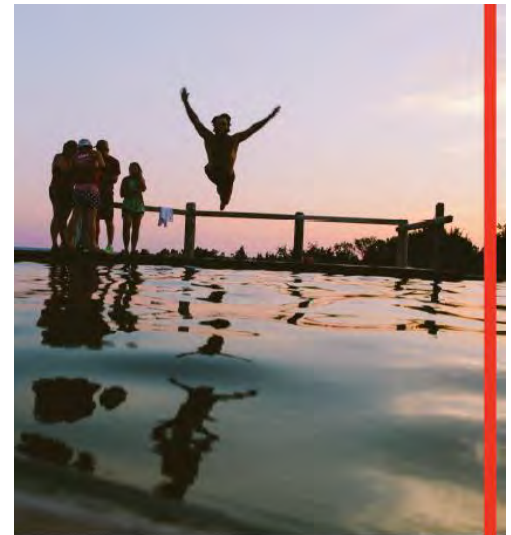
1.3 Protection Gap and Needs Analysis

As highlighted by research from Swiss Re, the global protection gap exists for general insurance and mortality protection gap (income needed to maintain standard of living). In 2016 HSBC Insurance has progressed a series of initiatives to improve the discussions we have with our customers regarding their protection needs:

The Power of Protection: HSBC's Power of [Protection](#) series of reports is aimed at better understanding how people see the role of financial protection in safeguarding what they have now as well their aspirations for the future. For many, protection is seen as a cost today rather than an investment in tomorrow. We have published 2 global protection reports in 2016 covering 12 of the countries in which HSBC operates within. The first report focused on the role of planning and protection in building our customer's confidence in the future. The second report focused on the impact of life changing events on our customers and how customers can prepare for these.

The report generated more than 200 pieces of global media coverage and is being used to support product development and change perceptions of Insurance both inside and outside HSBC.

The reports reveal that the majority of us are optimistic, and that those with the strongest inclination to plan financially are the most confident about the future. Future health is revealed as our greatest concern, with far-reaching impacts on our lives and the lives of others. Those who are most active in taking care of their own health are among the most optimistic about the future.



The Power of Protection
Confidence in the future

Global Report



Key findings

57%

have high expectations for their future quality of life

60%

of those with life cover do not know what the pay-out would be or do not think it is enough

71%

of those who actively plan for the future have high expectations for their future quality of life

53%

of those considering insurance say they have not taken it out because they expect or know it to be too expensive

51%

say an unexpected life event would have a greater emotional than financial impact on them

38%

of those considering insurance say they have not taken it out as they don't know how to go about it or have concerns about the policy

65%

say what they worry most about in life is their health

60%

believe that someone else should be responsible for ensuring their family's financial stability if they are no longer able to earn

46%

could not manage well financially or don't have anything specific in place if something unforeseen were to happen

57%

think that someone else should be responsible for the cost of their personal healthcare

A particular concern identified is that around half of us feel financially unprepared for the unexpected, while a similar proportion do not understand the financial protection they have in place or do not think it is enough. The upside to this is that those that have planned are significantly less worried about how they will provide for themselves in the future.

The survey results have been used to increase internal and external awareness of the importance of protection with communication widely through media messaging, staff messaging and sales aids and customer messaging oriented to protection.

Key findings from the reports are highlighted and there is a link to the full [report](#). A further report is planned in 2017.

The research identified four actions that may help people better prepare for the future:

1. Identify your biggest concerns

Review the financial protection you have in place today. See if it is enough to cover any concerns you have about providing for you and your family's lifestyle, home, health and future, if something unexpected should happen.

2. Know your future aspirations

Think about your aspirations for the future. Seeking professional advice could help you understand what protection you may need to put in place to achieve them.

3. Have an action plan

Once you understand what protection you have and what you need, explore the options available and take action to bridge the gap.

4. Review it regularly

Employer and state provision may not be sufficient for all your needs, and your circumstances will change over time. Review your plan regularly so you can take corrective action early.

Repositioning Protection: research conducted by HSBC in 2014 and 2015 indicated that one of the major barriers impacting engagement with Insurance across our customer base and with our front line teams was that they both



associate the subject of Protection with fear and that this makes it difficult to discuss. Therefore in 2016 the Insurance and Marketing teams have worked to reposition Protection, changing the conversation from Fear of losing what you have to optimism about the [future](#).

A new positioning strategy has been communicated to our global partners focused on Protecting your progress in life so that you can keep achieving, and a new creative campaign was piloted in Hong Kong to support the launch of the Term Protector product, prior to expanding to other countries in 2017. The examples included here are from the Hong Kong campaign.



Capitalising on the digital opportunity: Aligned with the growing customer trend towards self-directed financial purchases and increasing digital engagement, in 2016 HSBC launched simple term life products online in Hong Kong and the UK. These are promoted within the customers digital banking journeys, and aim to make it simple, quick and easy for our customers to take action to protect their family's future security.

1.4 Customer Insight and Incentive Schemes

In 2014, our Retail Banking and Wealth Management business completed extensive customer research to understand how best to engage with customers based on the segment they fall into and the appropriate products available to meet their needs. In 2015/16 we have utilised these insights, together with detailed analytical insights to define product and servicing principles which help inform future product enhancement and development.

Our Commercial Banking business has a series of similar work streams in place. A Global set of sales principles and implemented in all Commercial Banking Insurance markets. They were designed to ensure customers receive appropriate advice (relevant to market) and details the minimum documentation and disclosure requirements for each stage of the sales process. This has also been complemented with the introduction of a specific sales suitability risk and control monitoring agenda which has been implemented in all priority markets and is being tested on a regular basis.

1.5 Fair Value Exchange

In a survey commissioned by the PSI board, PSI signatory companies and supporting institutions were asked for their views on ESG issues that they consider most important for the insurance industry to address. The third highest ranking ESG issue as identified in this survey was *'insurance access and affordability'*. Aligned to this issue, this governance initiative ensures that HSBC takes a globally consistent approach to assessing its insurance products' prices to the benefit of both the customer and the business. This approach underpins the work HSBC is undertaking to build a position of trust with customers by making the right decisions in product pricing, design and development.

Fair Value Exchange work has continued throughout 2016. Almost all of the remaining planned enhancements to improve the customer value of on-shelf products were completed by the end of 2016 for specialist life insurance products. The product development and product approval processes continue to ensure that new products (whether third party or manufactured) are consistent with the Fair Value Exchange guiding principles and product frameworks. It remains the case that the modifications to certain aspects of our product range have in some cases substantially differentiated us from local market practice.

1.6 Sustainable Finance, Operations and Communities

HSBC's insurance businesses participate in Group initiatives concerning our environmental footprint and the sustainability of our operations, management of sustainability risk as well as our community investment, supporting the three pillars of sustainability in HSBC:

1. *Sustainable Finance:* We anticipate and manage the risks and opportunities associated with a changing climate, environment and economy.
2. *Sustainable Operations:* We work together with our suppliers to find new ways to reduce the impact of our operations on the environment. We are purchasing renewable energy, designing and operating our buildings and data centres more efficiently and reducing waste. We have committed to cut our carbon emissions from 3.5 to 2 tons per employee per year by 2020.
3. *Sustainable Communities:* We provide financial contributions to community projects and thousands of employees across the world get involved by volunteering their time and sharing their skills.

A number of key initiatives carried out in several markets can be found below. This is not the exhaustive list of the activities but it presents several best practices currently in place.

HSBC Insurance Hong Kong staff contributed to a variety of initiatives throughout the year. One event which included the United Christian Nethersole Community Health Service, Community Nutrition Service, United Centre of Emotional Health and Positive Thinking, Chiu Yang Por Yen Primary School was a day to educate primary school children in Tin Shui Wai on ways to achieve both mental and physical wellbeing through games, exercise, and workshops. Another example involved three activities under the umbrella of the HSBC Community Festival 2016.

Activities included a bus tour to participate in a street fair calling for elderly care awareness, home visits to elderly in-need, and assisting in themed photo-taking for elderly at a community centre.

In 2016, HSBC Assurances France pursued its commitment in financing the energy transition, investing in long-term environmental projects. Through a 20 million euros stake (out of 120 million euros invested end 2016) in "Conquest", an infrastructure fund focused on renewable energy, notably solar, HSBC Assurances diversified its Euro fund investments meeting strong environmental criteria.

In the same diversification pattern, HSBC Assurances France invested additional 25 million euros in 'Novo' bond funds and aimed to finance development of Small and Medium-sized Enterprises (SMEs), keeping its 5% share on the funds – HSBC Assurances had already invested 50 million euros in Novo funds throughout 2012-2013. These commitments show HSBC Assurances' willingness to optimize yield return for insurance customers, as well as to invest their savings, to a certain extent, in the local economy and in environmental projects, which are key for a sustainable economic development.



In an effort to promote teamwork and give back to the local community, once a year HSBC Insurance Mexico organise a 'green' running race to benefit Mexico City's main park (Chapultepec Park). Over 3,000 entrants, 1,000 of whom were HSBC Mexico staff members in support of the upkeep and preservation of the park. All Insurance green races are waste free. The race was organized with the support of total running (Mexican company dedicated to promoting sport and health). The race included the concept "corredor con causa" (runner with cause) for blind people with the assistant of another runner. The purpose is to protect and restore different urban parks across the country.

Insurance Mexico is also supporting the rehabilitation of other parks through a larger project called 'HSBC Insurance's Green Project' which is fundraised with a percentage of the customers' premiums. The business is working in collaboration with local non-governmental organizations to protect and restore several different urban parks.

HSBC Argentina invests in programs to help children and young people to reach their potential accessing and developing new skills for a better employability. Through HSBC Youth with Opportunities Programme and other initiatives, in 2016 they continued to support "Junior Achievement" educational programmes, such as "The advantages of staying at school" and "Partners for a Day", aimed at children and teenagers in public primary and secondary schools joining forces to prevent dropouts and increase understanding of children about the importance of education for their future, help develop the skills to enter the workforce and show young people how the world of work works through hands-on experience in the business. Through HSBC Water Programme, volunteers received the Science Leaders Earthwatch training and are monitoring the water quality of rivers of the province of Buenos Aires; furthermore, they participate at volunteering actions in alliances with "Fundación Vida Silvestre" and "Fundación Habitat and Desarrollo" in order to provide secure water access for the communities.

1.7 UN Principles for Responsible Investment (PRI)* (ESG)

Within HSBC Global Asset Management (AMG) we integrate ESG issues into our investment decision making process and our voting and engagement activities. We are supporting the implementation of the PRI for the funds that AMG manages on behalf of HSBC Insurance and its customers. For more details of Group Initiatives carried out throughout the year, visit HSBC Global Asset Management's Responsible Investment Transparency Report 2015/2016 which is available on the UN PRI website.

* The United Nations-supported Principles for Responsible Investment (PRI) Initiative is a framework for the institutional investment industry, which spans insurance and non-insurance institutions (e.g. insurance companies, pension funds, government reserve funds, foundations, endowments, depository organisations, investment management companies). Accordingly their scope is only on investment management, which they address more comprehensively. HSBC Global Asset Management is a signatory to the UN PRI initiative.

Principle 2: *We will work together with our clients and business partners to raise awareness of environmental, social and governance issues, manage risk and develop solutions*

2.1 Partner Collaboration and D&I

As HSBC Insurance does not manufacture all the insurance products we distribute to customers, we work with a number of key strategic partners some of whom are existing PSI signatories. The objectives and deliverables of the



D&I project outlined in section 1.1 are reliant on us working in collaboration with our strategic partners to review many of the products we currently offer. Implementation of the principles is reliant on endorsement, support and capacity of our partners which is already underway. Collaboration with our partners to review existing products and development of new products will continue throughout 2017.

In November 2016, AXA were invited to attend the Out Leadership summit held in Hong Kong and hosted by HSBC. Out Leadership is a global LGBT+ business organization that partners with the world's most influential companies to build business

opportunities, cultivate talent, and drive LGBT+ equality forward. LGBT+ inclusion positively impacts business results, and including LGBT+ people at the most senior level of executive leadership powerfully and positively benefits business bottom lines.

Comprised of 70+ member firms from the financial services, technology, legal and insurance industries, and dedicated to cross-industry collaboration. Convening at three annual summits in New York, Hong Kong and London, Out Leadership collectively set a forward-looking agenda. HSBC hosted the event in November with AXA's Hong Kong Managing Director of General Insurance attending along with a Senior Executive from HSBC Group Insurance.

In support of the D&I project and aligned to the Asia Out Leadership summit, HSBC Insurance arranged an Insurance roundtable with key partners of HSBC and Hang Seng. This included the founder of Out Leadership, HSBC Insurance, HSBC D&I and HSBC Legal along with key stakeholders from HASE, AXA, BUPA, QBE and Swiss Re. The objective was to discuss D&I in the context of the local Insurance industry. Topics included the need to encourage the industry to be more inclusive, the changes which have already been implemented locally to improve inclusiveness and the challenges faced by the LGBT+ population and those in *de facto* relationships in the current Insurance industry environment.

More details regarding [Out Leadership](#) and video footage of the [summit](#) can be found from the links.

For the first time in 2016, AXA sponsored The Economist '[Pride and Prejudice](#)' international conference which spans Hong Kong, London and New York and focuses on workplace inclusion. Approximately 200 business leaders, policymakers, and civil society representatives attended and debated these issues and shared best practices. In support of our partnership with AXA, our Global Programme Manager for Sustainable Insurance attended this event in London on behalf of HSBC. The conference focused on the economic and human costs of workplace discrimination. This is an important annual event for AXA and HSBC will support the conference in 2017.

Principle 3: We will work together with governments, regulators and other key stakeholders to promote widespread action across society on environmental, social and governance issues

3.1 Group Sustainability

HSBC's insurance businesses are providing support, where required and relevant, to Group Sustainability initiatives interacting with governments, regulators and other stakeholders. The Group Corporate Sustainability team is our key point of contact with regard to upholding this Principle.

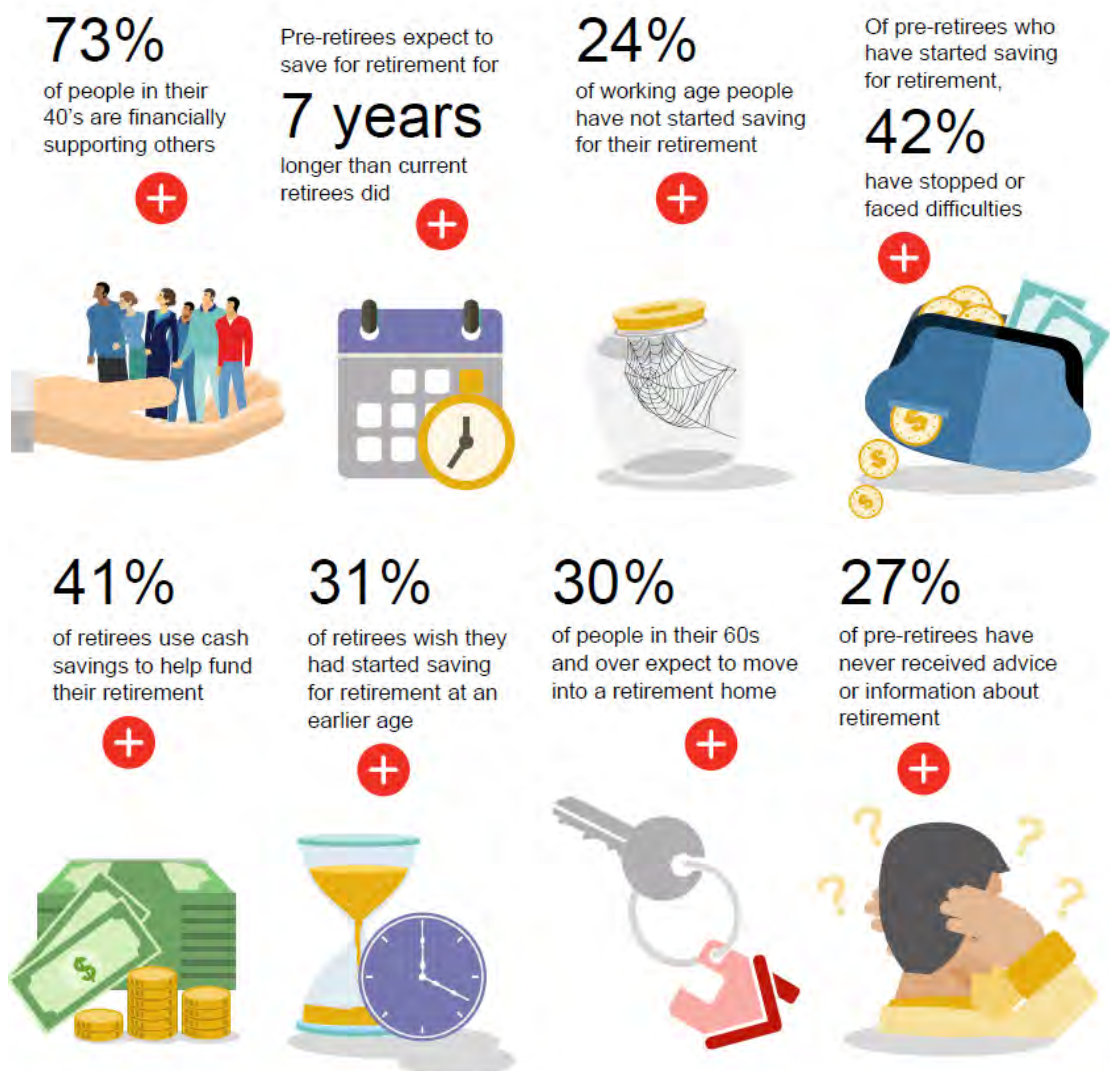
For fuller details of HSBC Holdings Plc's sustainability programmes can be found on our [website](#).

3.2 The Future of Retirement

Ageing populations and pressure to reduce social spending is an area of focus for the business. The latest Future of [Retirement](#) report, *Generations and journeys*, is the twelfth in the series and was published in July 2016. This report explores how people prioritise saving for a good retirement through the different stages of their lives. It highlights that people are increasingly needing to save for longer to achieve a comfortable retirement, and that working age people who have not started saving for retirement or have not received any advice or information about it, are less likely to feel positive about their retirement.

The report generated 721 pieces of news coverage worldwide. Since the study began in 2005, more than 141,000 people have been surveyed worldwide and a new survey is currently underway for the 2017 report.

Key findings

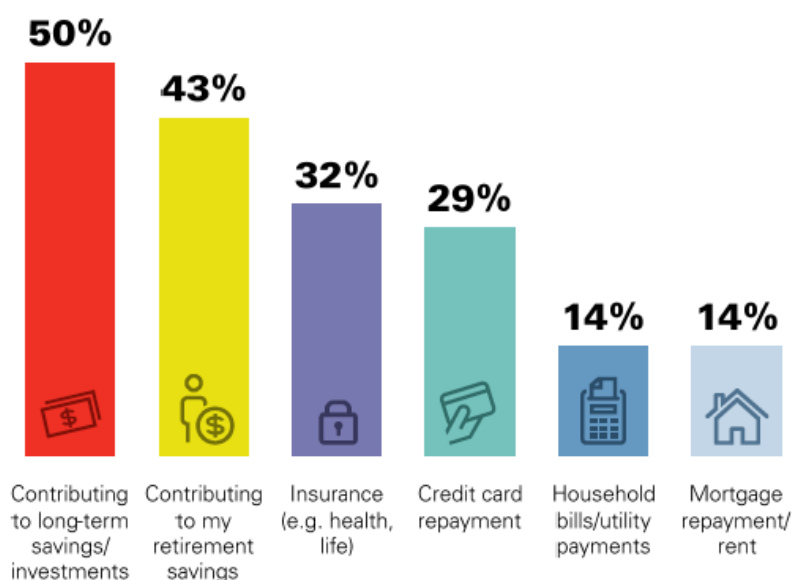


3.3 The Value of Education

Education is fundamental for human and economic development as it helps to build the successful futures of new generations. We believe our role is to help parents plan ahead so that their children can make the most of the opportunities available to them, fulfil their potential and ensure their ambitions turn into reality.

As part of our holistic proposition, we offer long-term savings products that can meet the cost of education need and raise awareness around the challenges and opportunities of higher education.

Launched in 2014, HSBC’s independent global consumer research study, The Value of [Education](#), represents the views of 6,241 parents in 15 countries. It explores the hopes and aspirations that parents around the world have of education. The third report, *Foundations for the future*, covers the ambitions parents have for their children’s future and how they think a university education can help them achieve their life goals as well as their attitudes towards funding their child’s education.



The report reveals that while many parents find paying for their child’s education difficult, it takes priority over their other financial responsibilities. Of the 6,241 parents who took part in the survey, nearly half (49%) think that funding their child’s education is more important than contributing to retirement savings and almost a third (30%) that their child’s education is more important than paying the mortgage or rent. Also, 32% say that their child’s education is the financial commitment they would be the least likely to sacrifice if they had to cut back on their financial outgoings.

As parents take on most of the funding responsibility, it is important they are realistic about the costs associated with their high expectations for their children’s education and future careers. We are committed to helping them to plan early and making sure they are well placed to support their children’s studies without compromising any of their own long-term financial goals.

3.4 UNEP FI Engagement & Support

We believe that we can promote the adoption and implementation of the Principles through participation in relevant working groups and organizations. Jim Costello HSBC Insurance CEO, China was a PSI board member throughout 2016. Our Head of Operations, Global Insurance Products attended the UNEP FI Annual Meetings in 2016 and as a signatory to the PSI, HSBC has also executed its right to vote on the UNEP FI Annual General Meeting.

Principle 4: *We will demonstrate accountability and transparency in regularly disclosing publicly our progress in implementing the Principles*

This is our fourth report since becoming a signatory on 23 April 2013 and demonstrates our continuing commitment to communicating our progress in implementing the PSI in a transparent manner. We are participating in relevant disclosure and reporting frameworks including regular updates in the Group’s sustainability reporting.

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