

Responsible Banking, the 10 Principles

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Abstract

Social, responsible, sustainable – these are the new buzz words when it comes to conducting business. We hear and read them every day in the news, more in reference to how things should be than to how things actually are. Corporate social responsibility was first conceived as a kind of separate wing of the enterprise, where it engaged in activities purported to serve society. But now society demands enterprises integrate the values behind such activities into their core business. As a consequence of the financial crisis, regulators and customers are rediscovering the stakeholder value model of “dual bottom line” banks, such as savings and retail and cooperative banks. They, unlike banks wedded to the shareholder value model, are not driven exclusively by profit; they’re on a “social mission” that is a product of their historical origins. And yet they’re as efficient as purely profit-driven financial institutions. Socially committed banks have developed business principles to act in a fair, transparent, risk-cautious manner vis-à-vis their clients and contribute to the welfare of the citizen and of their region. These principles address what went wrong in the banking sector in recent years and emphasise excellence in governance, client relationships, fair products and services, risk-free investment, financial inclusion, respect for the environment, financial education, community involvement, fair employment and macro-economic stability. What does it mean for a bank to be responsible in its daily activity? What does it imply in terms of efficiency, profitability and business model? Does it require a partial or total shift towards a stakeholder value model, and which would be more beneficial to the economy? These are the questions this article attempts to answer.

Keywords:

Responsible banking, Value, Client, Risk, Education, Profit.

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Banca responsable, los 10 principios

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Resumen

Social, responsable y sostenible —ésta son las nuevas palabras de moda a la hora de hacer negocios—. Las escuchamos y leemos todos los días en las noticias, más en referencia a cómo deberían ser las cosas que a cómo realmente son. La responsabilidad social corporativa fue inicialmente concebida como una especie de ala separada de la empresa dedicada a actividades al servicio de la sociedad. Pero ahora la sociedad demanda a las empresas la integración de los valores que subyacen a dichas actividades en su negocio principal. Como consecuencia de la crisis financiera, los reguladores y los clientes están redescubriendo el modelo de valor para las partes interesadas de los bancos “de doble balance”, como las Cajas de Ahorro, los bancos minoristas y los bancos de cooperación. Ellos, a diferencia de los bancos, apegados al modelo de valor para el accionista, no se guían exclusivamente por el lucro, sino que son una “misión social”, fruto de sus orígenes históricos. Y sin embargo, son tan eficientes como las instituciones financieras puramente lucrativas. Los bancos socialmente comprometidos han desarrollado principios empresariales para actuar de manera justa, transparente y con cautela ante el riesgo en su relación con sus clientes y contribuir al bienestar de los ciudadanos y de su región. Estos principios están dirigidos a lo que salió mal en el sector bancario en los últimos años y hacen hincapié en la excelencia en la gobernanza, las relaciones con los clientes, la razonabilidad de los productos y servicios, la inversión libre de riesgo, la inclusión financiera, el respeto por el medio ambiente, la educación financiera, la participación comunitaria, el empleo justo y la estabilidad macroeconómica. ¿Qué significa que un banco sea responsable en su actividad diaria? ¿Qué implica en términos de eficiencia, rentabilidad y modelo de negocio? ¿Es necesario un cambio parcial o total hacia un modelo de valor para las partes interesadas, que sería más beneficioso para la economía? Estas son las cuestiones que este artículo trata de responder.

Palabras clave:

Banca responsable, valor, cliente, riesgo, educación, beneficio.

■ 1. Introduction

Everyday news is reflecting the profound shifts that economies throughout the world are facing and lists the ever amplifying challenges faced by governments: demography and generation issues, climate change, unethical governance, stress, burn out, rising nationalism, energy, adapted education or should we say non adapted education, ..., to name just a few.

Considering that these areas are all very much interlinked with one another and go beyond the borders of single nations, the answer to the question whether these challenges can be treated one by one and by one single country is obviously “no”! The butterfly effect is well known by everybody by now and the word ‘systemic’ is the new buzz word in the banks’ vocabulary. Accordingly, there is so much interconnection that looking for solutions requires a systemic approach also, looking at the existing links, and analyzing their consequences between the different industries and the different actors.

That also means that each industry sector has to re-think its responsibility vis-à-vis the rest of the economy, understand its impact, and define policies for improving this impact.

Banks play a fundamental role in the development of financial markets as they interlink closely all economic and political actors. They are a key factor for boosting the economy, and contribute to the welfare of society. Because of this, financial institutions are increasingly regarded as important contributors to financial and economic stability.

In developed countries financial market activity has a direct impact on the wealth of people, on company and consumer behavior, and on cyclical performance throughout the economy. In developing countries, banks play a greater role than financial markets and are one of the largest providers of resources to the economy. For decades, however, the focus in many countries has been a shareholder-value model, which has the almost exclusive objective of maximizing shareholder value, often with a short term perspective, through risky leverage effects completely disconnected from the creation of real economic value.

The recent financial crisis and the resultant array of bankruptcies and bail-outs has however raised serious doubts on this model particularly with respect to short term shareholder-value strategies and the assumption that, in efficient markets based on shareholder-value, markets are self-correcting¹.

¹ *Investigating Diversity in the Banking Sector in Europe The Performance and Role of Savings Banks*, CEPS centre for European Policy Studies – p. i

Meanwhile, the crisis and the incertitude that was generated by such a short sighted business model disconnected from the real economy have led to a profound deterioration in consumer confidence in banks. Today, the man on the street wants to deal differently with banks and expects them to return to their original function: financing the economy. Banks are also increasingly expected to act as a utility, i.e. carrying out functions on behalf of the common good.

Meanwhile, concepts of corporate social responsibility, social, ethical, and sustainable business appear increasingly on politicians' agendas: they have started to realize the importance for all businesses to act more responsibly towards society. These concepts are also entering day to day conversations and contribute to changing individual expectations vis-à-vis the business sector and its responsibility towards the citizen, the economy, the society and the planet.

■ 2. To What Extent Are These Terms of Social Responsibility, Ethics and Sustainability Applicable to Banks? First, Some Definitions

Social Banking

The term social banking is used in a very heterogeneous way: new social banking describes the provision of banking and financial services that pursue systematically, as their main objective, a positive contribution to the potential of all human beings to develop, today and in the future. In social banking, the focus is on satisfying existing needs in the real economy and in society whilst simultaneously taking into account their social, cultural, ecological and economic sustainability. In this sense, 'social banking' is often used interchangeably with ethical, sustainable or alternative banking. Furthering the common good by generating multiple returns with respect to these aspects is at its core. Generating a monetary profit is not an end in itself but rather a means to pursue its objective. Note that in developing countries, social banking is often understood as government or development banking and it is also often linked to microfinance. Recently, the term social banking has also been associated to banking based on new social media, such as the internet, and related software. In this case there is no reference to a potential social impact of the bank's activity.

Ethical Banking

Ethical banking describes the activity of banks committed to promoting environmental, social projects and a real economy. In addition to dealing with the well-being of employees, customer satisfaction, benefits, wages, gender balance ethical banks will look at the impact their business practices have on society and the environment.

Sustainable banking is meeting the needs of the present without compromising the ability of future generations to meet their own needs (Brundtland Commission, convened by the United Nations in 1983). Sustainability is about preserving the environment and biodiversity for future generations, and about being cautious with our natural resources and climate. But sustainability is also about guaranteeing human rights and a life of dignity, free from need and poverty for all people living today. Essentially sustainable banking contributes to making this happen. The definition is supported by the acknowledged three pillars: economic, social and environmental development.

Corporate Social Responsibility (CSR)

Following the European Commission's definition, CSR is a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis. Being socially responsible means not only fulfilling legal expectations, but also going beyond compliance, and investing in "more" human capital, the environment and relations with stakeholders.

Fair Banking²

With Fair banking, we are pushing the concepts of CSR and the utility even further. Banks are expected to provide products and services that are beneficial for their customers and the citizen in general and that are going to improve their financial well-being in a way that they will be better off after using the product or service than before. The level of financial well-being is determined by the extent to which a household is "not worried because it is exercising sufficient control to have enough money to pay for the essentials –, to have some left over luxuries, service its debts, to have savings for the unexpected and to save regularly. The definition of essentials is of course widely different from one person to another as is that of luxuries³.

Responsible Banking (RB)

Definition: An Evolutionary Concept

We believe that the definition of responsible banking is going to evolve over the years in line with an increase of people's consciousness of the general need for a more stakeholders' driven society. In the meantime, responsible banking encompasses a strong commitment by banks to sustainable development and the fact that a bank addresses corporate social responsibility as an integral part of its business activities. Responsible banking, however, also means putting the well-being of the customer at

² www.csfi.org.uk

³ <http://www.fairbanking.org.uk>: This example refers to developed countries and the UK, in particular.

the center of every single activity of the bank. Accordingly, responsible banking refers to the bank, which aims to contribute in a sustainable manner to the improvement of the financial well-being of its client, the community and the society.

The objective of responsible banking is to build a fair partnership with its customers and other stake-holders that is based on mutual confidence, respect and openness, within a long term perspective. Accordingly, responsible banking emphasizes the banker's impartiality, competence and knowledge of the client and of the product and his willingness to serve the client to the best of his interest.

Accordingly responsible banking emphasizes the bank's primary socio-economic role of engaging in sustainable activities with a mission to serve the interest of the customer and to contribute to the growth of the economy. The implementation of responsible banking implies that banks have to reconsider their role in the economy. In turn this requires a change of culture and a rethink of each of their activities from a socio-economic, environmental and governance as well as a responsible management perspective.

■ 3. To What Extent Can a Bank be Responsible?

Can a bank really be responsible? Is it consistent with the core business of a bank? Does it imply a change of business model? Should all banks change their current business model?

This question has already been treated in numerous books and articles under different angles over the last decades. In the meantime, what has changed, is the crisis, or rather, let' say the enduring crisis, a crisis which started with the banks, but which forced governments to increase the level of their debts, which was already high. Today European governments on the brink of bankruptcy are putting the world economy at risk too. At the root of the crisis, there is greed and cowardice, and sometimes both. So yes! Definitely! There is room for taking responsibility and this applies to banks in particular.

To start with, it is important to state that there are already banks which consider they have a social role towards society and accordingly are not only shareholder value (SHV)⁴ driven but rather stakeholder value (STV) oriented. Historically the movement of social banking (to take a generic term) started with the first trustee savings bank established in 1810⁵. These institutions specialized in accepting savings

⁴ *Investigating Diversity in the Banking Sector in Europe The Performance and Role of Savings Banks, CEPS centre for European Policy Studies.*

⁵ *by Reverend Henry Duncan of Ruthwell in Dumfriesshire.*

deposits from those with moderate means. Their shares were not traded on the stock market but profits made were usually re-invested in the mutual for the benefit of the members. This model is very similar to that of the credit unions, which are not banks but offer many of the same services (investment opportunities, commercial and business loans checking & savings accounts, etc... These institutions linked to their region and community and put a higher focus on local and regional development than banks. In practice this means that they will lend strictly to people and businesses in the community they are located in. Accordingly, these institutions have a more positive impact on communities than regular banks.

These socially driven banks usually share three common elements: 1) they are not exclusively profit orientated but, adopt a ‘dual bottom line’ business model or what is also called a Stakeholder Value ethos (STV); 2) they have something of a ‘social mission’, which is partly a product of their historical origins and 3) compared with SHV banks, ownership stakes cannot be sold in a secondary market. For decades, however, the growing political and liberal market consensus in many countries had favored the SHV model in banking where the almost exclusive objective of bank managers was to maximize shareholder value and often in a fairly short time horizon. In this environment, non-SHV institutions have been criticized for being relatively inefficient, for not being subject to the discipline of the capital market and regulatory control, and for having weak corporate governance arrangements. Above all, it has been alleged that their objectives are not clear because there is no single focus.

A CEPS (Centre for European Policy Studies) study on “Investigating Diversity in the Banks Sector in Europe” gives an answer to the above: “On the basis of both theoretical analysis and recent experience, there is no presumption that the typical Anglo-Saxon governance model is best suited for all types of financial institutions. There are advantages and disadvantages in all governance models. Irrespective of the strengths and weaknesses of particular governance models, there is a systemic advantage in having a mixed system of models and a strong critical mass of savings banks and other STV institutions, such as mutuals and cooperative banks.”

The same study has compared the profitability, efficiency, market power and earning stability for commercial and savings banks, which are typically dual bottom line and socially driven banks. The study has taken the examples of the savings banks in Austria, Belgium, Germany, Italy and Spain during the period between 1996 and 2006⁶. “The results highlight that there are no clearly visible differences between savings and commercial banks in terms of profitability, efficiency, competition and earnings stability in the five countries between the years 1996 and 2006”.

⁶ *Op cit* p. 46 to 67

■ 4. The 10 Principles

These principles have been developed by the European Savings Banks Group and the World Savings Banks Institute and all find their roots in the experience of the savings banks worldwide over the last decades. Savings banks by tradition have as their primary concern, the safety and well-being of their customer, through the provision of savings products and the reinvestment of their collected deposits into the local economy: micro, very small and medium sized enterprises, and local authorities.

1. Fair and transparent corporate governance.
2. Fair and clear relations with customers with a customer-centric approach.
3. The provision of useful and appropriate products and services that contribute to the improvement of the financial well-being of the customers.
4. Responsible investment through the integration of environmental, social, governance (ESG) and ethical issues into financial analysis and decision-making,
6. The promotion of accessibility and financial inclusion.
6. The promotion and provision of financial education policies and instruments.
7. Environment-friendly business.
8. Making a responsible contribution to the community.
9. Being a responsible employer through the application of fair and equal treatment of all staff.
10. Contribution to financial stability.

■ 5. The 10 Principles in Details

5.1. Fair and Transparent Governance*

Corporate governance refers to the set of rules and incentives through which the management of a company is directed and controlled. Corporate governance frames the distribution of rights and responsibilities among management, the board of directors controlling shareholders, minority shareholders, and other stakeholders and provides the structure for setting, implementing, and monitoring company objectives. Good governance also completes financial supervision and is an integral part of effective risk-based oversight.

Business corporations are an increasingly important engine for wealth generation worldwide, and how companies are run will influence welfare in society as a whole. Banks play a key intermediary role in the economy. The importance of good corporate governance has been emphasized by the turbulence in financial markets since 2008 and the subsequent deterioration of trust in business leaders. Banks therefore need to review and establish appropriate corporate practices as a way to

improve economic dynamism and thus enhance overall economic performance. Banks have some specific corporate governance issues: their core activities of deposit-taking and lending, their access to and use of sensitive information, their systemic nature, their vulnerability to their reliance on trust, and their ultimate dependency on public funds (tax payer money) in crisis situation. The bank's activities & nature call for a specific Corporate Governance regulation and for effective boards to focus even more on assessing, managing, and mitigating risk.

The Impact of Governance on Responsible Banking

Corporate governance has a direct impact on several issues that are the cornerstones of responsible banking as it touches on such issues as ethics and integrity, customer satisfaction, fair employee treatment, protection of communities and of the environment, fair pay, supply chains, protection of investors and markets “long termism”, etc.

A bank committed to good corporate governance (Source World Bank).

- Is devoted to develop a corporate governance culture that goes beyond legal requirements, guaranteeing independent decision making, ethical behavior and transparency.
- Ensures the commitment and participation in the decision making process of all shareholders and stakeholders through channels and permanent dialogue.
- Strengthen the relationship with stakeholders, by considering and meeting their new social and ethical expectations.
- Have an empowered board, a solid internal control environment, and high levels of transparency and disclosure, and shareholder rights that are well defined and protected.
- Provides a high degree of transparency about the daily activities with special emphasis on areas of sustainability: lending, financial disintermediation and business interests.
- Focuses even more on assessing, managing, and mitigating risk.
- Embed into strategy crucial issues such as risk assumption awareness, long-term business planning and social responsibility.
- Promotes a fairer world order, in all its areas, such as gender diversity, combating money laundering and terrorist financing; fight against speculation; no use of tax havens reasonable rules regarding remuneration to senior management and governing bodies.

5.2. Fair and Clear Relations with Customers

It is widely recognized that a good customer relations policy based on concepts such as transparency, personalized advice, trust, attention to customers in difficult financial circumstances, rapid response to customer requests, etc. are key elements

to secure customer satisfaction and confidence and to establishing and maintaining a long-term relationship with customers. It should also contribute to building and maintaining the bank's reputation in the market.

The principle of fair and clear relations is defined as providing customers with clear and understandable information and advice that will enable customers to assess whether the proposed product or service is appropriate to their personal circumstances and risk profile. Implementing the principle of fair and clear relations is also a means of building, maintaining and enhancing a long-term relationship of confidence with customers. It may also serve for external communication purposes and contribute to developing and enhancing the responsible business image and the “stakeholder” model of the bank and thus create a differentiating factor on the market.

Fair and clear relations more specifically consist in:

- Providing clear and honest information on products and services and other terms and conditions of use.
- Advertising responsibly and ensuring the visibility of information on products and services in all distribution channels including the branches and Internet sites.
- Providing advice that meets the needs of customers and promoting products and services that are appropriate to their personal circumstances and risk profile.
- Considering all cases of financial difficulty sympathetically.
- Informing, communicating with customers and dealing with customer complaints quickly and efficiently.

A proactive policy of Know Your Customer (KYC) will improve the quality of the relationship between the client and the financial institution because the latter can use this information to adapt the offer to the needs of each individual client.

If however, customers want to change their financial services provider, they will be provided with the necessary information to do so and the terms and conditions for changing will not act as a non -incentive. This will include, in particular, adhering to the “Common Principles for Bank Account Switching” that have been elaborated by the European Banking Industry Committee (EBIC). Direction General Market is working on a draft regulation to rule the switching of bank account that is due to January 2013.

In case of conflicts of interest, measures must be taken to manage them so as not to damage client interests. In this context, consideration should also be given to an alignment of the interests of the clients and those of employees in terms of incentives, bonuses, remuneration etc.

In order to be useful and effective, the above principles and values should be transposed into a customer policy and formalized in some way. Possible options include incorporating the principles and values in the form of a Customer Charter, a Code of responsible Marketing or Responsible Business, a Code of Conduct, etc. These could include ethical values and principles related to such issues as confidence, long term approach, business understanding, competence of staff, respect, reliability and customer satisfaction and compliance.

EXAMPLES:

Caixa Economica Federal (CEF), Brazil – Quality Customer Service

The credibility inspired by Caixa has to do with the quality of the relationship that the institution establishes with the Brazilian society. Customers, suppliers, partners, government agencies and social institutions form a large and heterogeneous group of interlocutors with which the company cultivates transparent and constructive dialogue. Caixa released its Customer Service Policy in September 2008 in order to establish guidelines for consumer service, defining a customer as any individual or entity who contacts Caixa by any channel.

In order to achieve excellent levels of client's satisfaction, Caixa carries out the following activities:

- Five opinion polls per year on clients about customer service quality (Pesquisas de Qualidade do Atendimento, PQA). Beyond this, other evaluations are also done, for example an evaluation of programs financed with resources of the FGTS (Fundo de Garantia do Tempo de Serviço – Guarantee Fund for the employees).
- The project *Excelencia em Atender* (Excellence in Client Contact) is aiming at consolidating and creating excellence of customer service among managers and employees.
- Adaptation of administrative and operational units for universal access of branches: adapted lavatories, ramps, lifts, special doors, parking spots, tactile paths and braille texts, at least one counter adapted for wheelchairs.

*Caixa Geral de Depósitos, Portugal – Extracts from Their Product and Service Policy*⁷

Caixa Geral de Depósitos' product and service policy is embodied in the following guidelines (extract):

- Focus on the Customer's overall treatment by identifying and recommending products and services tailored to their profile.

⁷ <https://www.cgd.pt/English/Sustainability/Commitments-and-Policies/Documents/CGD-Product-and-Service-Policy.pdf>

- Regularly and periodically measure Customer satisfaction in order to evaluate the effectiveness of products and services, processes and functional models in order to further improve the quality of Customer service.
- Promote education for savings and careful and informed consumption in order to contribute to the prevention of Customer over-indebtedness and the consequent risk of default.
- Promote mutual trust and long-term relationships with Customers, providing follow-up according to their needs, thus consolidating its presence in the life cycle of families, promoting social development through the principles associated with a healthy and culturally enriched lifestyle, alongside safe and responsible financial management.
- Ensure the provision of Internet Banking services safely to its private banking, corporate and institutional Customers, as well as promotion of safe practices in the use of such services.
- Monitor compliance with the requirements of legislation and regulations of supervisory bodies, conducting assessments on an on-going basis for all products and services.
- Conduct regular internal training to ensure employees have the latest knowledge regarding banking products and services, including those environmentally and socially responsible, with a view to lending responsibly and, simultaneously, responding effectively to Customer demands.
- Ensure the involvement of stakeholders in the development of products and services through regular consultation to ensure that they meet their expectations and needs.

The Board of Directors (BOD) is ultimately responsible for the Product and Service Policy from the standpoint of Sustainability, with the Executive Committee (EC) being responsible for day-to-day management in line with the guidelines and commitments undertaken in this policy.

5.3. A Service Range that Improves the Financial Well-being and Financial Health of Customers

Considering that the role of a bank is not only to sell products and services but also to advise and accompany its customers in his/her financial choices and decisions throughout several life cycles, the concept of financial health can be very appealing for a bank and its customer. Financial health is the state of well-being in all matters financial: it encompasses the concept of a good financial position at a given point of time as well as financial planning for the future. Like physical health, financial health must be maintained by a healthy lifestyle or approach to finance. Banks should aim at bringing their clients to a level of financial health or financial well-being that is better than it would be otherwise thanks to the intervention of the

bank. It may change over time, as a result of personal or external factors and requires a regular check-up or assessment. The objective is to raise awareness and encourage customers and the general public to assess their financial health and to get advice on how to maintain and improve it.

Developing this concept and integrating it in a bank's customer policy are both interesting for the customer and for the bank: It is first of all a way to build a long term relationship based on trust and confidence with the customer and secondly a preventive risk management approach as it is a way for the customer and the bank to avoid difficult financial situations of overindebtedness. For the bank it could also be a market differentiating factor, which can improve image and sales.

Responsible Range of Products and Services

By espousing the concept of long-term financial health, the bank contributes to financial well – being of society at large and the real economy that sustains it. Therefore **banks are encouraged to:**

- Create and offer products and services that contain features that, when used by the customer, are likely to improve his or her level of financial satisfaction.
- Contribute to the serenity of the customer by ensuring him/her s/he has received all the necessary information to take her/his decision.
- Implement the following recommendations.
- Encourage greater financial control by households and micro and small and medium sized companies.
- Keep the unsecured debt-to-gross income ratio as low as possible.
- Promote savings and Encourage customers to think of their money in “pots” put aside for different things.
- Encourage families to adjust non-essential expenditure to life events.
- Provide tools & support that will enable customers to manage their money better and be in greater control of their assets.

Banks can address the financial well-being of customers in the first instance through their product and service range like: savings products, current accounts, and credit cards. This could also be extended to short and longer term loans, commercial banking, investment banking, asset management, private banking, trust banking and other forms of financial services. Basic products could also be associated with tools that would help customers to control their finances.

As regards the provision of credits, it is vital for banks and for the economy to reinvigorate the credit market by granting responsible loans to viable businesses and to families: **banks are therefore encouraged to:**

- Apply strict criteria of financial credit management, and not to fund projects that are economically viable but do not respect basic principles of human rights, good labor conditions as well as social and environmental considerations.
- Commit to sustainability through applying a long-term perspective to the lending decision process.
- Base their decisions on strengthening the solvency and prudent management of all risks (financial and non-environmental, social and governance) with long term views as regards the income and long-term effects of this activity.
- Ensure that customers are offered financing products that they can afford to repay in full through the financing tenure, without recourse to debt relief or substantial hardship.
- Set a prudent level of debt service ratio that
 - is prudent enough to prevent the customer from becoming over-indebted,
 - allows sufficient buffers for the customer's daily and essential expenditures and contingencies, having regard to the relevant circumstances of the customer.
- Offer loans to those who can afford the reimbursement of their installments throughout the loan tenure to prevent individuals from becoming overly indebted.

Note that often it might not be sufficient to lend responsibly and that the customer needs help to borrow responsibly too (see financial education).

EXAMPLES:

Bank Simpanan Nasional (BSN), Malaysia – Set Up Credit Clinics to Prevent Over-indebtedness

Starting in 2008, BSN approached clients to help reduce the pressure given by loans and financing burdens. It has established Credit Clinics in all 13 states through selected zone branches. This is a pro-active step to encourage borrowers to settle their loans while educating customers on prudent financial management. Through these Credit Clinics, BSN offers advisory service facilities, credit management and recovery and relief packages such as a late penalty waiver for individual borrowers eligible for rescheduling of loans such as housing loans, hire purchase and personal loans with more flexible rates of payment.

*Banco Caja Social, Colombia - Creemos” (WeBelieve) Microfinance Programme*⁸

Banco Caja Social (BCSC) was created in 1911 with the mission of being the leading bank for financing low and middle income clients, as well as micro, small and medium enterprises (SMEs). Segmentation and innovation are strategic pillars on which BCSC manages the expansion of its services catering to the needs of its target clientele. It has created “Creemos”, a microfinance programme targeting micro entrepreneurs with a

⁸ <https://www.bancocajasocial.com/>

monthly sales turnover of less than US\$ 2,500. The microloans are given taking into account the client's future payment capacity and are not based on collateral. Personal references and overall household expenses are part of the credit analysis. Created in June 2004, in September 2005 it had already 4,259 customers and had granted US\$ 3.58 million with an average loan size of US\$ 782. Past due loans were 2.26% of the total portfolio. Average savings in the account amount to US\$ 125. Since then, the programme has been expanding considerably; in 2009 it granted more than US\$19, 9 million in 17.000 credit operations. According to the bank's own estimates in 2009, the microcredit portfolio of Banco Caja Social represented 18, 21% of the total Colombian microcredit portfolio; 62% of the bank's portfolio comes from clients with a monthly income of less than US \$667. To date, the project has served 24.670 micro entrepreneurs.

5.4. Responsible Investment

"A growing number of financial market participants – from asset owners and pension funds to investment managers and service providers – are determined to make this century an age of sustainable investment and finance. They recognize the importance of environmental, social and corporate governance (ESG) issues when it comes to their own investment strategies and long-term performance and they are integrating increasingly ESG issues into their day-to-day investment practices. They are shaping the drive to real sustainable change - one that benefits them but also the wider world"⁹.

It is widely recognized that environmental, social and corporate governance (ESG) issues can affect the performance of investment portfolios. This can happen to varying degrees across companies, sectors, regions, asset classes and through time and therefore must be given appropriate consideration by investors if they are to fulfill their fiduciary (or equivalent) duty. All investors can incorporate ESG issues into their decision-making and ownership practices and so better align their objectives with those of society at large.

Banks in this context are encouraged to implement the six principles which are based on an investor initiative in partnership with UNEP Finance Initiative and the UN Global Compact:

1. Incorporate ESG issues into investment analysis and decision-making processes.
2. Be active owners and incorporate ESG issues into our ownership policies and practices.
3. Seek appropriate disclosure on ESG issues by the entities in which we invest.

⁹ www.unpri.org/sign

4. Promote acceptance and implementation of the Principles within the investment industry.
5. Work together to enhance our effectiveness in implementing the Principles.
6. Report on our activities and progress towards implementing the Principles.

EXAMPLES:

ASN Bank in the Netherlands Publishes the Climate Impact of its Investment Funds¹⁰

The mission of ASN Bank, a fully independent subsidiary of SNS Reaal, ESBG's Dutch member, is to promote sustainability in society. This goal has guided the financial operations of the bank regarding human rights and climate change. As part of this strategy ASN Bank publishes information on the climate impact of investment funds with the help of Trucost, an environmental data provider specialized in reporting the environmental impact of companies.

ASN Bank shares the view of the Intergovernmental Panel on Climate Change (IPCC) that climate change is caused by the global warming of the earth as a result of greenhouse gases due to human activities. In order to know whether its investment strategy is contributing to global warming, ASN Bank addressed Trucost to measure the CO2 emission of the companies in which their funds invest.

In May 2009, ASN Bank published the results of the research by Trucost. The results show that the combined CO2 emissions of the three ASN investment funds were considerably reduced in 2008. In effect, the total combined carbon intensity of its funds is 49% lower than the benchmark, the MCSI All World Developed Index. This shows that the customers of ASN Bank invest in much more climate-friendly funds than the average investor. Furthermore they are able to assess the carbon intensity of their investments through the published calculations.

Caisse de Dépôt et de Gestion (CDG) Morocco – Sustainable Investing

In order to ensure the integration of sustainable development principles in all projects of CDG, the following projects were financed:

- **Technopole Oujda:** regional competitive cluster over 211 hectares with a financing of USD 247 million. The specialty of this cluster is clean industries, especially renewable energy companies.
- **Ecoparc Smir:** landscape planning in the north of Morocco over 118 hectares with a financing of USD 7 million. The objectives are: value the lands in order to optimize the economy of the region but also the tourism; saving of a unique environmental

¹⁰ <http://www.asnbank.nl>

heritage (botanical, flora and fauna reserves); education with regards to environment protection, etc.

5.5. Promotion of Accessibility and Financial Inclusion

Playing a role in the social and economic development of the local community and of the economy as a whole, goes in line with the provision of finance to vulnerable segments, in less accessible areas. Accessibility versus financial inclusion does not only refer to the location but also to pricing:

- affordability, availability of cost-efficient alternatives and opportunity costs,
- information; increase of financial literacy and trust; culture; efficient, easy and pleasant customer interface, irrespective of customer's language, skills, dress and class and time.

The promotion of accessibility and contribution to financial inclusion is based on a proximity banking model that is often characterized by the maintenance and the development of a wide distribution network — physical or virtual in order to reach people — and the offer of tailored financial services and products that suit the needs of the clients.

As partners for all segments of society, banks are encouraged to:

- Build up a client-centric approach that puts client interests first, and provide them with useful and appropriate financial products and services at a fair and reasonable price and based on non-discriminatory conditions.
- Serve all segments of the population without any discrimination on the basis of age, gender or ethnic background, so as to ensure financial inclusion in society.
- Promote savings and facilitate access to modern financial products and services that are tailored to the financial profile of the person concerned, including those with lower incomes or modest means.
- Ensure accessibility and proximity banking close at hand by means of their dense network of branches throughout the country, including low-populated and economically disadvantaged areas, and via a well-developed range of electronic access channels.
- Commit to becoming a leader and the engine of economic growth and social development by promoting responsible access to finance for Micro and SMEs and individual customers to develop their life projects.

Note that a necessary element of any strong institution that promotes access to finance is a clear and sustainable mandate, outlined in the mission statement, for example. This mandate advocates financial viability in order to pursue the mission

and that this will be supported by a long term strategy rather than short term profits to satisfy shareholders expectations. This commitment to financial inclusion may be revised periodically.

EXAMPLES:

Die Zweite Sparkasse in Austria: “The bank for people without a bank” is a new model of savings bank operating in Austria. Its objective is to provide bank accounts to those people who are no longer banked due to economic and/or social difficulties.

Die Zweite Sparkasse, “The bank for people without a bank”, is a new model of savings bank operating in Austria. It started in 2006 initiated by Erste Foundation in close cooperation with Caritas and a debt counselling service. Its objective is to provide bank accounts to those people who are no longer banked because of economic and/or social difficulties such as unemployment, over-indebtedness, and homelessness. The service provided is a basic bank account with a bank card, which does not offer overdraft facilities. It is offered for three years with the perspective that, after this period, beneficiaries can be reintegrated into the “conventional” banking system.¹¹

The distinguishing feature of the Zweite Sparkasse is that it is entirely run by volunteers. Over 400 volunteers of the Erste Bank and the Sparkassen (savings banks) in Austria are involved with the Zweite Sparkasse, which enhances its visibility. Since 2008, it has been operational in almost all federal states of Austria and 4,000 accounts have been opened. More information is available at: www.sparkasse.at/diezweitesparkasse

CaixaEconômica Federal (CEF) Brazil – Wide Distribution Network

Caixa’s operations are mainly focused on the bottom of the pyramid segment of the population, and one of its strategy pillars to reach the poor and unbanked is further enlarging its distribution network and reaching the most remote areas. In 2009, Caixa had 27,674 service points present in all of the 5,564 municipalities of Brazil. With its network, it reaches more than 49.4 million clients.

In order to extend further its outreach, Caixa has developed an extensive and wide innovative delivery network, composed mainly of lottery shops (approx. 9,000) but also of other retailers such as supermarkets, pharmacies, etc., connected in real time. Lottery shops allow clients opening basic transaction accounts, receiving government subsidies, paying utility bills, balance checking, and more. Non-bank agents allow making payments and taxes, deposits and withdrawals, and others.

¹¹ <http://www.sparkasse.at/diezweitesparkasse>

Savings Banks in France: Microcredit Programme “ParcoursConfiance”¹²

In 2006, the French Savings Banks launched the “ParcoursConfiance” (Fresh Start) programme to prevent financial exclusion through microfinance. The programme aims to help customers suffering from personal and financial problems to have a better understanding of banking products and services and can provide the beneficiaries with microloans backed by guarantees.

The “ParcoursConfiance” programme was built in close collaboration with different associations (French Red Cross, Resto du Coeur, ...) in order to meet the expectations of customers suffering from personal and financial problems.

The French Savings Banks launched “Parcours Confiance” to allow these customers to access banking products and microloans, which aim to help them find a job, set up small companies or to find some social/financial balance. This programme is part of a variety of banking inclusion measures initiated by the French Savings Banks.

“ParcoursConfiance” includes a comprehensive and customized support and follow-up with the cooperation of the organization “Finances and Pédagogie” (see F&P Case Study) and the support of the welfare and socially oriented associations. A number of partnerships with a wide range of stakeholders – such as business creation specialists as well as social assistance and integration organizations – support the financial and banking services offered by the “Caisses d’Epargne” through “Parcours Confiance”.

In terms of results, a total of 9,267 microloans were granted from 2006 up to the end of June 2010, of which 7,159 were personal microloans and 2,108 were business microloans.

A study, carried out by an independent marketing cabinet (GMV), on the socio-economic impact of microloans allocated by “Parcours Confiance”, gives some interesting results. The reference population was composed of 807 customers who benefitted from a microloan from PC: - 80% of them reported that microloans have had a positive impact on finding or keeping their job, - The share of inactive or unemployed people was divided by two, - 2/3 of them reported that this programme helped them to improve their budgetary situation. This study is the result of academic contributions and was distributed towards the end of 2010.

5.6. Financial Education Policies and Instruments

Financial education is an important principle for helping consumers manage their income and budget, save and invest efficiently, and avoid becoming over-indebted.

¹² <http://www.parcoursconfiance.fr/>

In times of economic and social crisis it is even more important for consumers to take healthy financial decisions.

The recent worldwide economic downturn and collapse of financial institutions further emphasised the need for financial education. Other key contributing factors include an ageing population, the complexity and proliferation in the number of financial products, the erosion of trust and confidence in the financial sector, an increasing level of consumer debt, and low levels of literacy and numeracy.

With increasingly more sophisticated financial markets and complex financial products, the current generation of consumers assumes more responsibility regarding their income management. In emergent and developing countries, notably due to early marriage, very young people may have to take key decisions for their family and for their own future at a very early age. In developed countries, empowered bank customers notably through general education, information and technology assume more of the responsibility and risk for financial decisions, especially in the field of retirement investments and savings. Accordingly a high level of financial education for individuals is necessary to ensure adequate levels of investor and consumer protection as well as the smooth functioning of financial markets and of the economy as a whole.

Surveys of financial literacy conducted in 2009 in OECD countries show that consumers have low levels of financial literacy and do not see the need to be financially educated and that an increasing number of countries and government are concerned and taking initiatives to remedy the situation.

Financial education principles have to take into account various economic, social, demographic and cultural factors. They also vary from country to country while there are numerous methods to develop successfully financial education for a particular audience. In order to take the above into consideration, all interested stakeholders need to be involved in financial literacy efforts: representatives of Ministries of Finance, but also of Education, and if relevant of Social Affairs/Cohesion and of development, central banks and financial services supervisory authorities, consumers and civil society, through NGO's, especially women groups, churches, community groups, who can act as de-multipliers with the targeted groups of people, and work through a collaborative process.

The financial industry at large should take part, i.e. financial service providers as well as financial intermediaries, such as money transmitters or banking agents, as the first points of contact with the public. They should give assurances that their involvement is done in a fair, transparent and unbiased way.

Financial capability can be achieved through financial education, ultimately contributing to build a more inclusive society. All actors, including financial institutions need to fulfill their responsibility in educating consumers.

Banks are therefore encouraged to:

- inculcate responsible savings and lending practices in their dealings with customers,
- combine financial education and financial access – or, in other words, provide banking services that are adapted and understandable for customers as a result of what they have learnt through financial education,
- raise awareness on secure and reliable financial options and inform customers of the availability of specially designed services,
- promote responsible lending and borrowing behaviors to foster a healthy and sustainable credit market which in turn contributes to economic and financial stability,
- integrate financial education into a broader “bancarisation” policy initiative with measures on consumer protection and fair market practices.

EXAMPLES:

Government Savings Bank (GSB), Thailand – School-based Banking Scheme

In Thailand, the school-based banking scheme, which is financed by the Government Savings Bank (GSB), has been undertaken since 1998 to promote savings habits among children. The school bank project is a business model operated by the students of selected schools with advisory support from teachers and GSB staff. To facilitate the operation of the school bank, GSB provides support such as a training program for those students who act as managers, cashiers, accountants, customer service staff and data entry staff. Deposit and withdrawal services are provided before the morning class or during the lunch hour. The GSB branch that plays an advisory role performs auditing and collects savings after the banking hours of the school-based bank.

The number of the school-based banks and the number of deposit accounts and their volume have been increasing. As of 2009, there were 349 school banks across the country and 820,000 deposit accounts amounting to more than Baht 328 million (approximately USD 10 million).

*The Austrian Savings Banks*¹³ are assisting schools in their provision of financial literacy. The aim is to prepare youngsters for their role as economically responsible competent consumers.

¹³ <http://www.sparkasse.at/sgruppe/Home>

The target audience includes school children of all ages and in all types of schools (from primary-school children to secondary school graduates). Children in primary, secondary and special education schools are offered education relating to topics such as handling money, budgeting, debt risks, the stock market and career orientation. The Austrian Savings banks' promotion of business and savings education in schools goes back to the 1950s; it began as savings education, which later evolved into financial and business education.

5.7. Environment-friendly Business

Climate change is one of the four main environmental challenges, which need to be tackled in order to safeguard the planet and thus the survival of humanity. The other main challenges are the preservation of ecosystems and bio-diversity, air pollution through chemical emissions and the degradation of sources of drinking water.

If we strictly focus on climate change, we believe, that as a building block of the global economy, financial institutions can provide a role model by establishing their carbon footprint, i.e. their level of carbon dioxide (CO₂) emissions, and setting targets to reduce these emissions. They can also contribute momentum by incorporating the environmental dimension in banking offers, operations and processes, in relations with customers and suppliers as well as in their role as institutional investors.

Climate change incurs risks (physical, operational, market, regulatory, reputational) but also presents opportunities, which can provide an attractive “return” for financial institutions both in terms of the bottom line but also in an enhanced reputation and credibility in the eyes of existing and potential customers and employees who seek a commitment to corporate social responsibility, sustainable investment and environmental issues on the part of their bank.

A systematic approach to environmental management and reporting and the implementation of a climate change strategy allows a financial institution to achieve various tangible and intangible benefits and presents significant opportunities. These include:

- Financial benefits: costs savings as a result of policies to reduce and rationalize the use and consumption of energy.
- New markets such as clean technologies and additional revenue streams through a potentially greater market share and/or a larger share of the wallet from the offer of new climate-change related products and services.
- Communication on environmental compliance leads to improved public image and enhanced client trust through anticipating and meeting the environmental performance expectations of stakeholders.

- Early mover advantage in anticipating the growing expectations from campaign groups and ratings agencies for clear information on the carbon-exposure of banks' loan portfolios. It also facilitates the task of completing environmental impact disclosure questionnaires, which are becoming increasingly mainstream.
- Early mover advantage in anticipating national and European regulations designed to ban or curtail certain activities that have an adverse impact on climate change and to promoting others that could be classified as mitigation or adaptation measures.
- Good sustainability ratings for investors.
- Competitive positioning.
- Improved employee morale, motivation and retention.

In the light of the above, it is submitted that the implementation of a corporate climate change strategy could be an excellent “win- win” opportunity that makes good business sense for banks.

To recognize that the environmental challenge is becoming one of the main collective hazards ever experienced worldwide. As part of their strong commitment to corporate social responsibility (CSR), banks are encouraged to:

- Pay due respect to the environment and the rational use of natural and energetic resources.
- Recognize the risks and opportunities caused by environmental issues for their business.
- Consider the impact of their business on the environment, both direct in terms of own operations and indirect in terms of customers and suppliers.
- Pay attention to the impact of the business on climate change and global warming and how climate change and global warming impacts on the business.
- Incorporate the environmental dimension in banking offers, operations and processes as well as in relations with suppliers, as appropriate.
- Set as priority the efficient management of resources and minimizing environmental impacts both direct, and indirect such as those relating to financing activity, asset management and supply chain.
- Promote products and services that respect social, environmental and sustainable development criteria.

Note that environmental performance evaluations for financial institutions show that energy consumption within their premises is one of the most relevant environmental aspects. Financial institutions use high amounts of electricity for data processing, lighting, cooling and other processes, as well as fossil fuels for heating purposes. Business travel is also a main source of CO₂ emissions. Other

areas that impact on the environment, but are not directly linked to climate change, are use of paper, waste and water management.

EXAMPLES:

South African Post office (SAPO) – Programme on Environmental Impact

Being aware of the impact business activities can have on the environment, the South African Post Office (SAPO) is investing in technology and processes that limit environmental impact. To this end, it seeks to be recognized as one of the leading national companies and the leading state-owned enterprise in environmental management and sustainable development.

Measures taken to reduce environmental impact include a switch to vehicles with exhaust catalysts to reduce pollution, the planting of 857 trees during the current financial year to offset carbon emissions, and a switch to power saving devices where possible. Mail is delivered using carbon neutral methods, 64% of delivery routes are serviced by postmen and women using bicycles, while 29% of delivery routes are serviced on foot. Where it becomes essential for delivery to use motorcycles, the South African Post Office has switched to four-stroke motorcycles that pollute much less than two-stroke type. The company’s paper recycling programme has seen 297 tons of waste paper recycled during the previous financial year.

Environmental concerns are taken into consideration where new post office buildings are erected to minimize the need for air conditioning, heating and artificial lighting. On this note, the South African Post Office completed 45 new post office buildings and renovated a further 75 during its previous financial year.

Business Opportunities Through the Financing of Renewable Energy Installations: Case Study from Germany¹⁴

For several years, the business of electric power generation and to some extent heat generation from renewable energies has been growing. According to the German Ministry for the Environment, Nature Conservation and Nuclear Safety, in 2007 the inland turnover through construction and operation of such installations produced 24.6 bn €, providing 240.000 jobs. As opposed to fossil and nuclear energy generation, the renewable energies sector is predominantly decentralized in structure. Today, renewable-energy-installations or planning of such can be found in almost every German community.

¹⁴ <http://www.dsgv.de/de/sparkassen-finanzgruppe/index.html>

Renewable energy financing is becoming increasingly a day-to-day business in the banking sector. Several questions arise, however, which have so far been dealt with and decided upon individually by the Savings-Banks-Group (Sparkassen-Finanzgruppe).

An “Evidence Manual” for systemizing the financing procedure for renewable energies has been developed in a co-operation between a team of experts from Leuphana University of Lüneburg (Prof. Dr. Heinrich Degenhart, Prof. Dr. Thomas Schomerus), the market strategy department within the DSGV, the German Savings Banks and Girogroup (Deutsche Sparkassen- und Giroverband) and the agency in charge of scientific promotion within the Sparkassen-Finanzgruppe e. V. The objective of the manual is to facilitate the handling of the aforementioned typical questions and reduce the need for proffering specific information.

5.8. Making a Responsible Contribution to the Community

Should financial institutions contribute to the communities in which they operate? What would or should be this contribution and under which format?

Considering the primary economic role of a bank is to finance the economy and contribute to its growth, the position taken here is that financial institutions have responsibilities, vis-à-vis their clients and in particular enterprises (micro and small and medium sized enterprises), which go beyond solely making profits. We believe that banks are also responsible to help small firms to grow their business, create more employment and thereby stimulate the wealth and levels of prosperity of the community as whole. Accordingly, banks should have a “dual-bottom line” objective, which entails reaching a balance between social and economic performance: without losing money and while making profit, a bank should be an economic partner that supports entrepreneurship, micro and SME’s as well as large companies.

Considering the risk that some of these operations may represent, it may be appropriate to enter into partnerships with other stakeholders, such as guarantors or risk analysts so that the bank can play an efficient role in the local economy. In addition to the above, banks have a role to play in less populated and remote areas and should contribute to the development of these areas also. In the current context, the bank’s contribution to the economy is more than the provision of a range of financial products and services, it is also an active participation in the society: this can include training, stimulation and assistance – financial or not - to different segments of the population, with the aim to increase the social welfare of this population. It is a philosophy which shows that the management of the bank will know and have empathy with the environment and the people in the community they serve.

Banks are encouraged to:

- Link their business objectives and success to the needs of the local communities and society in which they operate, over and beyond their customer base.
- Provide financial services throughout the country and contribute to the economic and social development in all regions in which they operate.
- Drive local economic dynamism by financing economic development projects, including small and micro projects aimed at creating jobs and reducing social exclusion.
- Support local civic commitment and contribute to social welfare through donations and community partnership programmes in such fields as culture, research and development, education, social welfare and the preservation of natural and historical heritage.

EXAMPLES:

Sparkassen- Savings Banks – in Germany¹⁵

The 423 German savings Banks (figure as at 16 October 2012) provide financial services to clients in all parts of the country, in dynamic centers as well as in the less developed regions. In most rural areas Sparkassen and cooperative banks are the only relevant financial institutions. From a time perspective, Sparkassen due to their very broad and diversified customer base and their strong roots in a specific region tend to function to a certain extent in an anti-cyclical manner: they are less prone to overheated credit expansion in the good times and to credit crunches in the bad times, thus contributing to financial stability. In addition Sparkassen play a complementary role with respect to privately owned commercial banks, servicing underserved clients. The German Savings Banks have a customer advocacy proposition, which implies that they are obliged to open an account to any citizen or company fulfilling certain criteria. Sparkassen very often are the only option for clients whose profitability is below a certain threshold to access basic financial services. There are many specific examples of this complementary role of Sparkassen, e.g. the establishment of specific branches for young people, the development of special financial products for the aged, and the provision of microcredits. The latter benefits mostly long-term unemployed people who are accompanied by a financial education programme, making it a critical instrument in combating financial exclusion.

Government Savings Bank (GSB), Thailand – Community Bank

After the economic crisis that caused a decline in people's standard of living, the Government established a policy to promote a community economic system. Each

¹⁵ <http://www.dsgv.de/de/sparkassen-finanzgruppe/index.html>

Community Bank is set up according to the needs of the local community and owned by everyone in the community. GSB's community bank is operated as a branch bank but offers services for the benefit of the society as a whole. The target of the bank is to support the local community and its development so that it grows strong and self-sustainable. Specific emphasis is put on the promotion of financial discipline and savings within the community, which are considered vital to the country's firm economic development. The savings mobilized can be allocated for the benefit of the respective community development in various areas. At the end of 2008, GSB had altogether 18 community banks nationwide.

GSB has put emphasis on developing and upgrading the quality of life of the people and communities at the grassroots level by providing them with credits, along with knowledge and skills development so that they can earn their living well. The Bank has also given financial support to community enterprises, community financial institutions and cooperatives, and provided training and consultancy for the development of management skills.

5.9. Responsible Employers

Many studies and surveys are published every year all over the world in order to find out the qualities of a good employer: apart from the cutting-edge technology companies Google and Apple which have won out over the last years as the companies most would like to work for, the majority of respondents to surveys say they care more about having a good working environment than a great brand name.

- A large majority says a good working environment is what makes a good employer.
- Closely followed by good pay and a benefits package.
- Over three-quarters of the survey's participants say it is important that an employer should offer a good work-life balance; this proportion remains fairly constant across all the age groups surveyed, from 18-24 year olds to people over 55.
- Training and development opportunities (65%) also feature high up on the wish-list.
- Close to half believe that good leadership is a key factor, and want 'a good culture' and strong company values.

In their role as responsible employers and as part of their philosophy, banks are encouraged to:

- Act as equal opportunity employers that do not discriminate on any grounds.
- Provide high-quality jobs and good, decent and healthy workplace conditions for their employees in all the regions in which they operate.
- Treat all staff fairly and equally, improve professional careers and establish remuneration plans according to strategy, objectives and benefits.

- Promote ethical behaviour and corporate best practices that help employees to become better professionals and citizens.
- Promote a corporate culture of staff identification with the employer and a strong value orientation of the responsible role of the savings bank in the region.
- Provide employees with the opportunity to achieve a good work-life balance.
- promote training and life-long learning opportunities in order to facilitate career advancement.
- Pursue a responsible relocation and redundancy policy towards employees in case of reorganization or restructuring.

EXAMPLES:

Swedbank in Sweden: the “55+ concept”¹⁶

To increase the development of the competence of its staff members and their wellbeing, Swedbank has invented a competence model and designed a concept for staff aged 55 years and above. The aim of the programme is to create efficiency, to preserve all competence throughout the company, and to make the company an attractive employer for employees of all ages. The “55+Concept” involves keep-fit and competence development activities for employees aged 55 years and over. When employees reach the age of 58 years, they can take advantage of the “Ease Down” and “PlusTime” programmes.

The “Ease Down” offer entitles employees over 58 years of age to work 80% of regular working hours with 90% pay and the occupational pension maintained at 100%. As an alternative to this offer “PlusTime” gives employees who continue working full time after the age of 58 or part-time employees who work 80% or more, the opportunity to take three additional days of leave per year. This offer was initiated to promote a balance in life and to create additional time for employees to enable them to be more effective and more creative at work. A survey conducted among Swedbank employees aged over 58 years of age shows that the “Ease Down” programme in particular has had a positive impact on the way that these employees find their working life conditions.

Lloyds Banking Group believes that equality and diversity are not just about complying with legislation, but rather they are vital elements for achieving competitive advantage. They attract and retain talented employees from all the UK’s diverse communities. Over the last few years they have been working to increase the number of women and ethnic minority colleagues in management and senior management positions across the organisation. At the end of 2008, the group executive committee had one of the highest proportions of women for a FTSE 100 company, and 23.4 per cent of senior

¹⁶ <http://www.swedbank.com/csr/index.htm>

managers were women. In 2008, Race for Opportunity named Lloyds as top performer out of 85 organisations for their leading edge race programme. They became the first organisation in the campaign's history to be awarded Platinum status. Their disability programme has been ranked first out of 116 organisations by the Employers' Forum on Disability and they maintained sixth place in Stonewall's Index of the 100 best employers of lesbian, gay and bisexual people.

National Savings Bank (NSB) Sri Lanka – Recreational Activities for Employees

For effective work life balance, NSB facilitates recreational activities for its employees, encourages and facilitates staff participation in sports and events, music and dancing, skills development. NSB congratulates employees for their long and loyal service to the bank with In the year 2008, NSB spent LKR 30 million (USD 260,000) for the above activities:

- The Sports Club has been established to recognize the talents of the employees and they are granted duty leave to attend practices and matches. Sportsmen & women who emerge victorious at the Inter Branch/Division Tournaments and Nationalized Services Tournaments are awarded with medals/championship cups at the Colors Night which is held annually.
- The Bank organizes annually an awards ceremony to congratulate employees' children on their success at school and extracurricular activities at national level. They are awarded certificates and a deposit of LKR10,000 (USD 90) each.

5.10. Contribution to Financial Stability

The CEPS study on “investigating diversity in the banking sector in Europe” highlights that “irrespective of the strengths and weaknesses of particular governance models, there is a systemic advantage in having a mixed system of models and a strong critical mass of stakeholder value (STV) model. In a pluralistic banking market, hosting several types of business models, STV institutions enhance competition in the financial sector, enhance stability characteristics, contribute to alleviating social exclusion and contribute to regional development. Institutions with a financial access mission and a vocation to serve the local community are more stable in their commercial practices. Institutions with long term orientation of their business strategies are – in particular lending – not only in a space dimension – facilitating credit in particular to rural areas – but also in a time dimension. This implies that, while some banks are more aggressive in the reaction to the perception of risk, ceasing their propensity to lend in the good times and contracting sharply in the bad times, regional, retail banks are more stable and tend to smooth this pro-cyclicality inherent to the financial sector. In addition there is a systemic advantage in having a mix of institutions with different portfolio structures with the potential to reduce overall systemic risk by virtue of institutions not being homogeneous. Furthermore STV model institutions tend to

adopt a lower-risk profile. A pluralistic approach to ownership is likely to be conducive to greater financial stability. With their contrasting capital structures, SHV and STV banks' balance their risks and loan portfolios differently. Systemic risk is thereby reduced. The more diversified a financial system is in terms of size, ownership and structure of businesses, the better it is able to weather the strains produced by the normal business cycle, and in particular avoiding the bandwagon effect¹⁷.

Banks have a role to play in:

- Supporting financial stability, and contributing to the development of the world economy and trade on a multilateral, non-discriminatory basis in accordance with international obligations.
- Reaching the highest sustainable economic growth and employment level, and raising the standard of living in their countries.

■ Conclusion

Challenges faced by governments and individuals at the end of the value chain require a change in mentalities and attitudes and a call for individuals to act more responsibly, with a genuine intention to create positive and long-term changes.

One of the causes of the financial crisis was greed in financial markets and the pressure on commercial banks to maximise shareholder return by increasing leverage. Acting in a globalised world generates systemic risks and domino effects, and when problems emerge at one bank, leverage becomes the mechanism transferring problems to another bank, thereby spreading problems to the economy as a whole. The financial crisis and government debt, though seriously threatening the macro-economic balance of world economies by transforming old economies into obsolete ones, also present some positive aspects: increased awareness among individuals and clusters of leaders that problems should be addressed differently and in a more responsible manner.

Speaking about responsibility in the banking industry often involves referring to the stakeholder value business model. In this model, generating a profit is, of course, important, but the remuneration of shareholders does not drive the business model to the detriment of economic stability. Its main feature is also prioritising the generation of social dividends to grow the regional and real economy. In this context, stakeholder-driven banks have for decades applied principles that answer today's

¹⁷ *Investigating diversity in the banking sector in Europe op cit.*

consumer expectations in terms of customer relationships, risk management and return to society.

In the light of the crisis, these principles have been fine-tuned in order to address all retail banking facets. These principles invite the banker to rethink his/her ways of working and to envisage a profound change of culture, which will not influence only the banking industry but the rest of the economy too. Therefore, in order to be useful and effective, these principles should be formalized and transposed into the bank's strategy and charter or code of conduct, with a special purpose in terms of dissemination, communication and, most importantly, implementation. These principles are derived from the stakeholder business model.

Does it mean that this model is the right one? From a micro-economic point of view, we believe it is a solution as long as it responds to consumers' needs. From a macro-economic point of view, it is a solution because it requires a healthy shift in individuals' mentality which should lead to a better distribution of resources and to more solidarity.

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