

## **Sustainable Finance and Banking - Slow starters are gaining pace**

By Marcel Jeucken

---

This paper is based upon the book 'Sustainable Finance and Banking' by Marcel Jeucken (November 2001). Marcel Jeucken is senior economist at Rabobank Group and director of Sustainability in Finance. For more information: [www.sustainability-in-finance.com](http://www.sustainability-in-finance.com)

---

*The banking sector has responded far more slowly than other sectors to the new challenges that sustainability presents. Bankers generally consider themselves to be in a relatively environmentally friendly industry (in terms of emissions and pollution). However, given their potential exposure to risk, they have been surprisingly slow to examine the environmental performance of their clients. A stated reason for this is still that such an examination would 'require interference' with a client's activities. The role of banks in contributing toward sustainable development is, however, potentially enormous, because of their intermediary role in an economy. Banks transform money in terms of duration, scale, spatial location and risk and have an important impact on the economic development of nations. This influence is of a quantitative, but also of a qualitative, nature, because banks can influence the pace and direction of economic growth.*

Research, dating back to 1990, concluded that banks were not interested in their own environmental situation or that of their clients. This situation is now changing and banks are gaining pace to revise their role and interest in this respect. There is growing awareness in the financial sector that environment brings risks (such as a customer's soil degradation) and opportunities (such as environmental investment funds). On the risk side, there has been an enormous rising of concern in the United States since the late 1980s. Banks could, under CERCLA, be held directly responsible for the environmental pollution of clients and obliged to pay remediation costs. Some banks even went bankrupt under this scheme. Due to these developments, American banks became the first to consider their environmental policies, particularly with regard to credit risks. European banks were not exposed to these liabilities and only began to develop policies toward environmental issues during the mid-1990s. The focus here was less on risk assessment and more on internal environmental care and later the development of new products such as environmentally friendly investment funds.

Both risk and opportunity are now becoming established elements in banking policies towards the environment. Empirical research from 1995 on the environmental activities of the signatories of the 'UNEP Statement by Financial Institutions on the Environment and Sustainable Development', which was launched in Rio in 1992, showed that 80% of the respondents made some kind of assessment of environmental risks. An investigation in 1997 amongst the signatories concluded that many banks have set up environmental departments and are developing environmentally friendly products. In Asia, South America and Eastern Europe, change is also under way, mostly through the influence of environmental standards from multilateral development banks, such as the World Bank. Strong evidence that sustainability has reached the mainstream financial community was provided by the launch of the 'Dow Jones Sustainability Group Index' in September 1999 and the FTSE4Good Index in 2001. For the first time, mainstream global indexes are tracking the performance of the leading sustainability-driven companies worldwide.

## **Survey on state-of-the-art sustainability and banking**

Below the results of a survey will be presented that has explored the current state-of-the-art on sustainability among 34 mainstream international banks (listed in Table 1). The main focus is on environmental issues, though social issues are taken into consideration as well. It deviates from other research as it does not look at banks known to be active in this field (from literature, their publishing of environmental reports or by their signing of the UNEP-statement), but has selected banks on an a priori unrelated criteria (total bank assets). The selected banks are based in Europe, North America, Japan and Australia and are among the top-80 banks worldwide (in assets). The accumulated assets of the 34 banks are worth €13 trillion; that is twice the accumulated GDPs of all low- and middle-income countries. In total, the 34 banks provide work for more than 2.2 million people (average 65,600 employees per bank) and possess more than 95,000 offices (average 2,800 per bank). Their international reach in terms of the number and the diversity of countries and world regions in which they operate is considerable. Clearly, the banks selected have a significant stake in the development of the global economy. In the analyses in the following sections frequent comparison is made between the three world regions Europe (24 banks), North America (6 banks) and Oceania (Japan and Australia; 4 banks). Where the analysis focuses on numbers of banks in a world region, standardization for the region is applied. This means that for the issue in question the share of banks scoring in the total banks in one region will be compared with the share of banks scoring in the total banks for another region. Obviously, the results for Europe are statistically more significant. The environmental and social results reported below cover the period 1998-2000 and are entirely based on studying environmental, social and financial reports of banks. The methods of this survey (and its pros and cons) are explained in Jeucken (2001).

### ***Codes of conduct***

Codes of conduct, such as those of the United Nations Environment Programme (UNEP) and the International Chamber of Commerce (ICC), are popular among the 34 major international banks studied. More than half of them have signed the banking sector specific UNEP declaration and half the more general ICC declaration. Standardized for differences in numbers of banks per region, the North American banks score a little better than European banks (respectively 67% and 54%). The ICC declaration enjoys popularity in all regions, whereas European banks show a clear preference for the UNEP declaration.

### ***Environmental reporting***

Environmental reporting by banks appears to be very much a European phenomenon. Banks in other regions lag behind. Cultural differences are a determining factor. Transparency is not highly regarded in Japan and is sometimes even considered a weakness. While European banks focus more on environmental aspects, North American and Oceanian banks concentrate more on community involvement. French and Italian banks stand out in that they report on neither the environment nor their community involvement. 23 out of 34 banks currently do not publish an environmental or sustainability report (68 per cent). Conformity within a country is striking; all selected banks in Germany, Switzerland and The Netherlands publish an environmental or sustainability report. Remarkably, while the economy is global and most banks are as well, peer pressure appears confined within national or regional borders.

### ***Environmental management systems***

The most proactive banks attempt to systematically reduce the environmental impact of their internal processes. A formal Environmental Management Systems (EMS) can achieve this. Four European banks have obtained the highly respected and general ISO certification:

BBVA (some locations), Deutsche Bank (national office network) and UBS and Credit Suisse (for their worldwide EMS). There is no sign that banks in North America or Oceania will acquire similar certification in the near future. In the mid-1990s, UBS, Credit Suisse and HypoVereinsbank were involved in the development of the so-called 'VfU-standard' for internal environmental care (i.e. the internal process side such as energy use) within the banking sector. In 2000 these same banks, now together with Deutsche Bank, worked on the development of the so-called 'EPI-Finance- standard' for external environmental care (i.e. the product side) within banks. In that same year, two British banks, Barclays and NatWest, were involved in the development of an internal and external management standard for the banking sector, the modular 'FORGE- method'. Currently EPI-Finance is working towards a social standard for the banking community as well. While other banks in the sample have received these industry standards with interest, they have not yet been adopted. These initiatives may prove to be very promising for further progress within the banking community towards sustainability.

### ***Environmental policy***

Close to 60 per cent of the banks worldwide have an environmental policy statement: looking at the regional differentiation this applies to 67 per cent of the European banks, 50 per cent of the banks in North America and 25 per cent of the banks in Oceania (standardized). A distinction can be made between banks with a comprehensive policy statement of at least one page, published separately or within an environmental or financial report (41%), and banks with a limited expression of environmental policy (i.e. only a few policy sentences on the subject in the financial report; 18%), and banks with no policy statements on environmental issues at all (41%). It is striking that some banks are signatories to the UNEP declaration, but don't report any environmental policy objectives.

### ***Environmental risk assessment and guidelines***

Fifty-six per cent of the banks pay close attention to environmental aspects when setting up credit and financing agreements (see Table 1). This percentage is unexpectedly low. Banks have been fully aware of environmental risks already since the beginning of the 1990s. In the US, CERCLA even caused some banks to go bankrupt. What is more striking therefore is that not all North American banks conduct environmental risk analyses (67% actually do). Of all European banks, 63% conduct environmental risk assessment in its financing decisions. No bank in Oceania, Belgium, France or Italy apparently conducts environmental risk analyses.

Only within the group of banks who indicate that they explicitly take into account the existence of environmental risks, do banks exist which make sector choices or use international guidelines for financing; when financing projects or companies in developing countries or countries in transition, some of these banks explicitly adhere to the guidelines of the World Bank (24 per cent) and/or the OECD (3 per cent) and/or set one or more sectors aside from financing (15 per cent). North American banks seem to be more eager to use the World Bank guidelines than European banks (standardized). Especially for investments in developing countries these guidelines are enhancing more sustainable investments. By contrast, only European banks explicitly state sectors or activities that they will not finance. Such exclusion of sectors or activities is for banks still a delicate subject. The banks with something to say on this subject are quick to note in their annual financial or environmental reports that strict adherence to this principle is not always possible in the financial world. In many cases exclusion by one bank simply means a project is financed by another bank, whereas were the bank with an active interest in the environment to be involved, it could exercise some influence over the environmental consequences. It is in this respect interesting

to see that Bank of America reports that it wishes to play no part in the building of the Three Gorges Dam in China, while Société Générale reports (and proudly it seems) that it is involved in this project.

### **Financial products for environmental care**

A bank may offer its clients a whole range of products and services related to sustainability.

Table 1 gives an overview for sustainability products offered by each of the banks selected.

**Table 1 Financial products and services offered by individual banks, 1998–2000**

N = 34	Env. risk assessment	Env. loans	Micro credit	Env. funds	Env. leasing	Env. insurance	Env. advice services	Climate product	Env. venture capital
<b>Northern America</b>									
Royal Bank Canada	X	X	X				X		
Can.Imp.Bank Com.	X								
Bank of Montreal									
Citigroup	X	X	X	X		X	X		
Bank of America	X	X	X				X		
Chase Manhattan			X						
<b>Europe</b>									
Bank Austria	X	X					X		
Fortis Bank									
KBC Bank		X				X			
MeritaNordbanken	X	X					X		
BNP Paribas									
Crédit Agricole		X							
Société Générale				X					
Deutsche Bank	X	X	X	X	X	X	X	X	X
HypoVereinsbank	X	X		X			X		
Dresdner Bank	X			X			X		
Banca Intesa		X							
UniCredito		X				X	X		
SanPaolo IMI									
ABN AMRO	X			X	X	X	X		
ING Group	X	X		X	X	X	X	X	
Rabobank Group	X	X	X	X	X	X	X	X	X
BSCH									
BBVA	X	X							
Handelsbanken	X								
UBS	X			X			X	X	X
Crédit Suisse Group	X			X		X	X	X	
HSBC Holdings	X								
Barclays Bank	X	X							
NatWest Bank	X	X	X			X	X		
<b>Oceania</b>									
Nat. Australia Bank							X		
Bank Tokyo Mitsu.									
Fuji Bank									X
Sumitomo		X					X		
<b>Number of banks</b>	<b>19</b>	<b>17</b>	<b>7</b>	<b>10</b>	<b>4</b>	<b>9</b>	<b>17</b>	<b>5</b>	<b>4</b>

Specific environmental loans are quite popular in Europe and North America. In every country except Australia and Switzerland, at least one bank offers an environmental loan (50% in total). Of the selected banks, ten offer customers the opportunity to invest in environmental funds (in total 29 per cent of the selected banks); European banks are the most active in this field. Many differences exist between banks, however. All selected Swiss,

German and Dutch banks are active in this area. The Dutch banks offer 'green funds', which are supported by governmental fiscal facilities, and best-in-class investment funds. Dresdner, Citigroup and ING offer wealthy customers the opportunity to compile their own sustainable portfolios. Environmental leases are offered by European banks only. On the other hand, only North American banks offer environmental and social credit cards. Together with Deutsche Bank, all Dutch banks are active in the market for environmental leases (a total of 12 per cent of the banks selected). In The Netherlands this is again complemented by governmental facilities. With an environmental affinity credit card the bank per purchase makes a donation to a charity of the customer's choice (at no cost to the client).

One activity of banks that requires little from the core financial services is the provision of environmental advisorial services to industrial customers. Throughout the world's regions, the percentage of banks which offer this is the same: 50 per cent, though what it involves varies from publishing brochures about the realization of energy saving to offering customized consultancy and on-site consultancy. Unicredito and NatWest (now part of the Royal Bank of Scotland) are front-runners in this area.

Just as investment funds, insurance is a product for which an environmental version is more likely to exist. Many banks give their customers the option of taking out an insurance policy for environmental damage that they have either suffered or caused to third parties (26 per cent). No banks in Oceania have such a product and in North America only Citigroup is active in this area. Within Europe, The Netherlands is notable: every Dutch bank in the selection offers its customers environmental damage insurance. Insurers in The Netherlands jointly developed an innovative insurance product, which was subsequently offered by all banks. The Dutch banks are also All Finance institutions for which insurance activities form an important part of their portfolio of financial services. It is important when considering insurance products to see whether they really do belong to the core activity of each bank in the sample. Adjusted for those that do not, 69 per cent of the relevant institutions offer an environmental insurance product to their customers.

Micro-credits are an interesting financial instrument offering an economic way out of poverty to people who normally cannot obtain regular bank financing, by supplying them with very small-scale finance. Seven banks (21 per cent) offer micro-credits. Only four banks actually use this financial product in developing countries. A whole new area is financial products and innovations related to international climate change policy. This area is still very new and only the progressive banks are as yet active in it (15 per cent, all European). Four banks in total have tailored venture capital products for environmental innovations. As sustainability will require breakthrough innovations these venture capital products can prove to be very promising for the future.

### ***Socio-economic activities and sponsoring***

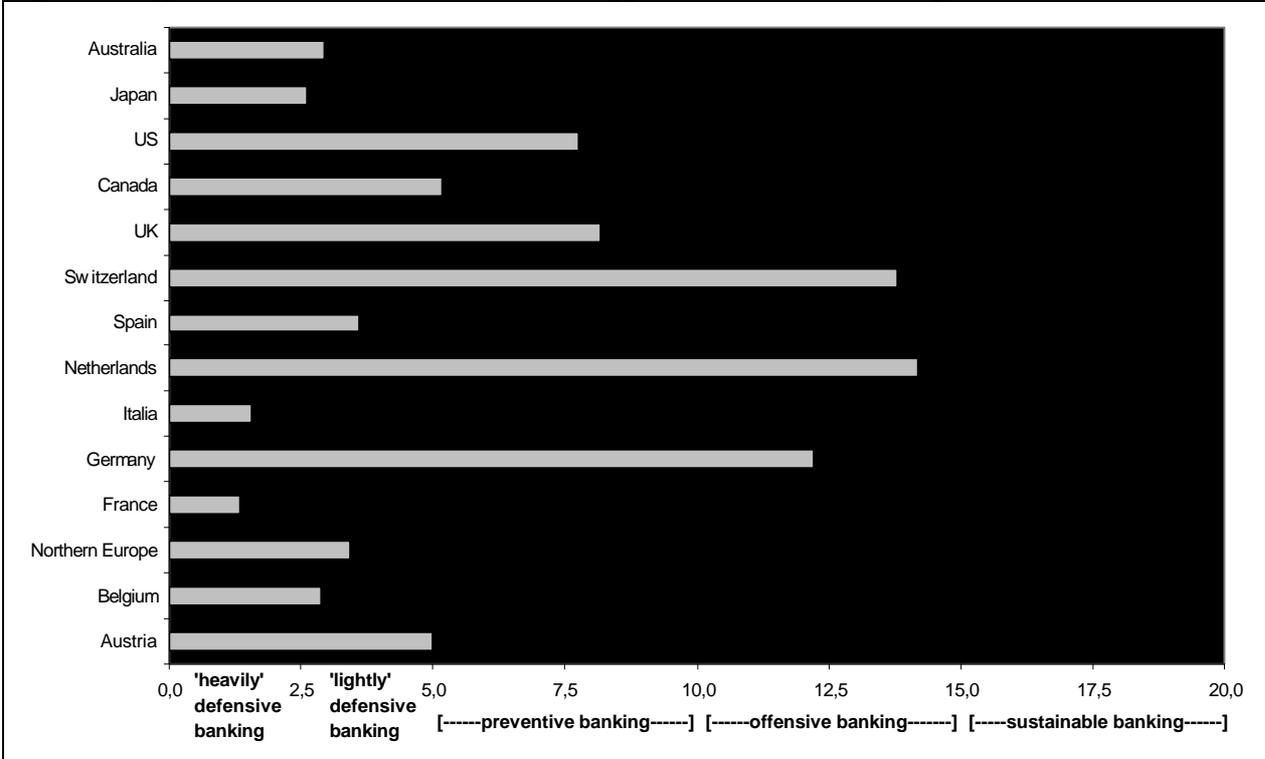
That the social component has played a role in the pursuit of sustainability alongside environmental care is apparent from the scores of banks on a number of social components. This is usually in the form of charity and sponsorship. Environmental sponsoring is an area in which nearly 60 per cent of all banks are active. The differences between the regions are not very great. Community involvement is a key issue in North America and Oceania (all banks in these regions are active in this region; for Europe this is 71%). Community involvement includes voluntary projects (whether by employees or not), and investments in and sponsorship of social activities in local communities. Banks are major employers. Over 80 per cent of all banks are active in the field of internal socio-economic policy and activities. These

policies and activities include focused training, equal career opportunities for men and women and arrangements for shares for staff. All banks in North America are active in this field. As for the other world regions, 78% of the European banks and 75% of the Oceanian banks score on this item.

**Conclusion**

This article has highlighted important differences between regions, countries and banks with regard to sustainable banking. The current position of banks on a broad range of issues has been analysed. The picture created is mixed, both between banks and for each bank individually. It appears that the majority of the banks adopt a defensive position towards the environment (53 per cent). The overall picture shows a group of ten front-runners (30 per cent) who are very proactive, a group of six followers (18 per cent) and a group of 18 stragglers (53 per cent). Figure 1 gives the results for each country selected in the survey (based on the headquarters of the banks selected). A distinction is made between banks who are ‘heavily’ defensive (ie largely ignorant of the issue of sustainability), ‘slightly’ defensive (stragglers who are just starting to act on the quest for sustainability), preventive (reducing costs by internal environmental care - eg reducing energy use - and lowering risks by environmental risk assessment policies), offensive (next to activities of preventive banking, marketing new products aimed at customers with a ‘sustainability need’), and sustainable (banks that holistically work on sustainability issues and take steps that and are not just driven by commercial objectives alone). In the results above, preventive banks are the ‘followers’, and the offensive and sustainable banks are the ‘front-runners’. The methods of the scoring process are explained in Jeucken (2001).

**Figure 1 Differences between countries aiming for sustainable banking, 1998–2000**



Though the banking sector has been slow to pick up the challenge of sustainability, change is underway. However, listening to and focussing on the pro-active banks - such as Credit Suisse, UBS, Rabobank and Deutsche Bank - will gain the wrong impression that the banking

sector is well underway. This is a faulty observation: a large group of banks still do not see the role they can play and maybe should play towards a sustainable development. The main herd of the banks is largely inactive. The business case still needs to be proven to these banks. This mission will need to be picked up by NGOs, governments, science and peers within the banking sector.

----- END -----