

Barcelona Treball

Summary of sector trends: Banking and finances

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Ethical banking and CSR in financial institutions

Banking is a sector traditionally assessed on financial indicators. But in the current crisis context, ethical banking and CSR applied to financial institutions arise as a new business model that seeks to value the commitment of financial institutions to the social, environmental and economic sustainability. Ethical banking and CSR have become a means of creating value, investors' confidence and business excellence.

Ethical banking is a banking business model that responds to emerging **new approaches to sustainable economy, based on the application of the principles of Corporate Social Responsibility (CSR)** in the field of banking and finance. CSR requires integrating into the business strategy values such as equal opportunity, environmental sustainability, or support for cultural diversity.

The names used to characterize ethical banking are varied: civic banking, sustainable banking, clean banking, alternative banking, solidarity banking, etc. But all refer to the same idea: ethical banking integrates CSR as a fundamental part of its "core business", which implies that integrates the following values:

- Transparency in reporting on their investments.
- Investment ethically principled on the responsible use of resources, the right price, diversity and equal opportunities.
- Financing of real economy (or productive economy) initiatives and projects, related to sustainable development, social commitment and respect for the environment.

One of the fundamentals of ethical banking, which also explains its success, is **transparency** in the management of business information. Banks opting for an ethical business model undertake to publish the full list of projects funded by customer deposits. For this reason, ethical banking reports, not only on economic performance, but also on the social and environmental benefits generated as a

result of its activities. Thus, **transparency is the fundamental tool of ethical banking to maintain credibility.**

This type of banking also means opting for **the development and consolidation of projects combining social and environmental performance criteria with economic viability principles. This is one of the major differences with the traditional or classic model of financial institutions.** In this regard, ethical banking excludes economic projects considered irresponsible, unfair, unsustainable or speculative.

The key to the success of ethical banking is mostly based on the fact that it has Having connected with an important part of citizenship that is not satisfied, after more than four years of financial crisis, with the classical model of banking,

Thus, the introduction of ethical principles in the world of finance and the commitment to a model based on CSR **responds to a growing demand from customers looking for a financial return that is consistent with the principles of solidarity, social responsibility and commitment environment.**

In summary, the consolidation of ethical banking, as an emerging model in the finance sector, shows the full compatibility existing between economic and social profit.

Impact on the sector

Ethical banking has grown noticeably in Spain since the outbreak of the global financial crisis (which began in the U.S. in 2008), becoming an example of responsible banking that is in tune with a citizenry increasingly committed to the values of solidarity and sustainable economic development. This development entails, for example, making responsible use of resources, protecting the environment or offering labour integration opportunities to people with difficulties.

According to the Barometer of ethical finance, in 2011 **deposits in ethical banking increased by 54%**,. Similarly, **loans for projects and initiatives increased by 24%**.

In addition, the cumulative growth since 2005 amounts to 1.760% with respect to deposits, and 1.150% with respect to loans.

Another indicator to bear in mind is that related to the late payments (number of creditors who cannot cope with its debt). While in 2011 this rate was 7.6% in traditional banking, it was 2% in ethical banking.

These data do reflect that **the phenomenon of ethical banking increasingly roots in Catalan and Spanish market** (in line with what happens in other European countries such as the Netherlands, the UK and Germany, where ethical banking has had a longer run). They also show that a business model in finance demonstrating reliability, responsibility and safety is becoming consolidated.

From a sectoral perspective, the emergence of ethical banking and CSR in banking and **finance is a clearly positive phenomenon**, because it breaks the credit paralysis that currently dominates traditional Spanish banking. Data indicate that ethical banking increases yearly the number of credits and has established itself as a new player in the financing of business projects and initiatives.

¹Study carried out by FETS- Ethical and Solidarity Financing Association with the support of the Barcelona Provincial Council and the Catalan Agency for Development Cooperation.

The following are some of the financial institutions practicing ethical banking in Catalonia and Spain are:

- **Triodos Bank:** A European bank that only funds projects and initiatives that, besides being profitable, improve the people quality of life. Headquartered in the Netherlands, it also operates in Catalonia and Spain. It has 13 offices in the whole Spanish State, one of them in Barcelona. It is the ethical bank with the largest turnover. Registers an annual increase of 58% in terms of deposits and 23% in number of funded projects (between 2010 and 2011).
- **Oikocredit:** A investment financial institution that supports development projects. It registers a 20% annual increase in deposits and 26% in loans (between 2010 and 2011).
- **Responsible Investment and Savings Foundation (Fundación Inversión y Ahorro Responsable – FIARE):** This is a non-profit organization with headquarters and home in the Basque country, that finances activities with social impact. The FIARE loans increased from 16 million euros in 2010 to 24 in 2011 (46% increase).
- **Cooperative of Ethical and Solidarity financial services (Cooperativa de servicios financieros Éticos y Solidarios – Coop 57):** It is a cooperative of financial services. Coop 57 has increased by 34% the volume of deposits and 33% of the volume of loans between 2010 and 2011.

On the other hand, **traditional financial institutions are opting for applying CSR** in their investments. For example, in 2010, and according to their sustainability reports, Servimedia, BBVA, Santander, Caja Navarra and Caja Bank (now integrated into Banca Civica)², **studied 217 investment projects considering social and environmental criteria** (with a total value of 25.848 million euros), more than in 2009, in which those entities analyzed a total of 199 projects.

²These four entities are attached to the global initiative of the Ecuador Principles, defined by the International Finance Corporation (IFC), which ensures that the entities analyze the viability of projects over \$ 10 million from the social and environmental criteria viewpoint.

Ethical banking grows in number of clients and projects and initiatives funded.

Ethical banking in Spain, though still consisting of a small number of entities, has experienced significant growth in turnover and customers in recent years.

Impact on professional profiles

Ethical banking and promotion of CSR in the financial sector needs professionals, not only able to assess projects' economic viability, but also to assess their social or environmental impact. Therefore, these professionals need to acquire specific knowledge in various topics such as renewable energy, environment preservation, fair trade, or support for people at risk of exclusion. They also need to incorporate certain values such as solidarity, equal opportunities and respect for the environment.

Empathy and communication skills are basic for ethical banking professionals.

The impact of ethical banking and CSR project assessment criteria on professionals profiles in the banking and finance sector affects basically the field of financial entities and products and, mostly, in profiles such as: risk analyst, financial advisor and bank employee.

Hence, while ethical banking incorporates banking professionals, as well as traditional institutions, those professionals have made a concrete commitment to solidarity and the social values with which ethical banking institutions identify.

Ethical banking, as well as traditional banking focusing on assessing projects under CSR criteria (social, environmental, etc.), has had to incorporate professionals with training and experience in finance, but with specific knowledge about the sectors specifically addressed by the this sector or the assessment of social and / or environmental impact. More concretely, this model of banking particularly appreciates the ability to add knowledge of the sectors on which investment will be focused:

- **Social sector** and, in particular, initiatives related to care of the elderly and disabled.
- **Agriculture or organic food sector** .
- **Renewable energy** and energy saving **sector**.
- **Biobuilding sector**.
- Activities concerned with the **conservation and preservation of nature and natural resources**.
- **Fair and sustainable trade**.
- **Health and wellbeing**.
- **Cultural and artistic activities**.
- **Education and research**.

The profiles associated with the risk analysis of funding operations should bring technical skills far beyond a pure financial analysis. Thus, in addition to assessing projects profitability and economic viability, professionals must be able to assess non-economic aspects, such as its social, environmental or educational component, i.e., their CSR

component.

Therefore, risk analysts and financial advisors must know how to evaluate projects combination of social added value, environmental sustainability or financial credibility.

Similarly, **skills related to empathy and motivational aspects are an added value in this type of business**, as the supervision of the borrowed funds requires a close relationship with companies and entities receiving financial support³.

Given that one of the foundations of ethical banking is transparency with fund trustees, **employees of such banks should be able to explain to customers the destination and use of funds, and to transmit the social benefits they generate**.

Taking into account the social commitment of ethical banking, professionals coming from NGOs (NonGovernmental Organizations), especially those with experience in financial management or general management, are highly valued.

More information about the industry is available on the Barcelona Treball website

[Market > Industries > Banking and finances](#)

This section of the website contains a report on the industry covering aspects on employment issues, where you will be able to take a look at occupational fiches for various job profiles and learn the main resources needed to find a job in the industry.

³ *One goal of ethical banking is to promote responsible use of funds borrowed. So part of the job is to guide investment management and motivate its correct deployment (achieving established objectives). Project monitoring is broader than the traditional banking mode.; while not only valued the ROI, it also carries out an assessment of the objectives achievement. This brings a closer relationship with the customer, in which motivational and orientation aspects are important.*

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