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Global Alliance for Banking on Values

Positioning Paper

GABV Brand Values and Differentiation Criteria

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To: GABV Board
From: Martin Rohner

Brand Values

Finance plays a pivotal role in shaping the economy, and therefore our society and the environment. Every loan, every investment has an impact on our future, for better or worse. Likewise, many people depend on access to finance to secure their livelihood, live up to their full potential and enjoy a decent and dignified quality of life. Banking and finance therefore come with great responsibility: Banks are not simply neutral brokers of money. They are often creators of money, and by deciding how to allocate the money they are important agents of change.

Because of this responsibility, banks need to be clear and transparent about their guiding values. They must show if and how they contribute with their business to the transformational change required to build healthy, inclusive and equitable societies that can flourish within our planetary means; they must show how they avoid financing harmful activities; and they should be able to demonstrate how they ensure that client relationships are fair and transparent.

The following eight brand values complement the six GABV Principles. They sharpen our messaging, explain in more depth who we are and how we are different. The most important feature of GABV member banks is that their values are intentional and integrated into the business model, and not simply an add-on.

Intentional	Values-based banks' focus on social and environmental impact is intentional, not coincidental. It's why they exist and reflected in everything they do – from products and services to how they approach risk and make decisions about who to finance. Conventional banks may or may not finance sustainable projects, but in their case it is often a result of spotting a market opportunity or to position themselves in a different way, and not rooted in their underlying purpose or mission. This is not, in itself, a bad thing. But it does matter because for the same reasons, a bank might engage with polluting industries or weapons producers for example. And when market conditions change, the bank is unlikely to stay committed to these customers and sectors.
Coherent	While there is a great deal of change in the banking industry, the business model of conventional banks does not take a coherent approach with respect to social and environmental impact. In fact, many – perhaps most - banks finance both sustainable and harmful activities at the same time. When a bank fails to be transparent about this in its business, and especially if it gives disproportionate emphasis to its sustainable business without being clear about its approach to unsustainable sectors, it is being incoherent and inauthentic. At its worst, greenwashing misleads stakeholders about an institution's true overall impact.
Ambitious	Values-based banks want to be recognised as thought leaders at the forefront of progressive banking. Therefore, they aspire to the highest standards, acknowledging that they can always learn and improve. For the sake of accountability and credibility, and in order to meaningfully develop, values-based banks assess their business model and performance and how they progress vis-à-vis conventional banks and values-based peers, and they try to continuously progress. Exclusion criteria – while not being the primary focus of values-based banks – are defined more ambitiously than is the case for mainstream banks.
Authentic	Values-based banks are not perfect. Instead, they maintain an open and honest approach to their shortcomings and work to improve them. Their communications are transparent, honest and as a result easy to understand. By being intentional in what they do, and integrating values in their businesses, values-based banks are genuinely authentic.
Contextual	Banks operate in different cultures and regulatory regimes, and under different market conditions. Therefore, there needs to be a contextual approach to values-based banks. There are universal norms such as human or labour rights that are applicable in any context and should be followed by all banks. But beyond this, values-based banking does not operate in a values 'strait jacket'. The world is complex and so are the social and environmental challenges we face. Importantly, values-based banks recognise that these challenges are linked. They do not consider them in isolation although their activities may be focused in specific areas. What matters most is that values are reflected, intentional and appropriate to bring positive social and environmental impact in a specific context.

Transparent	Values-based banks are accountable. This accountability is first and foremost expressed by a high degree of transparency at all levels of the business model. Transparency allows outsiders to judge for themselves how a bank is behaving against a particular set of values. As well as meeting the 'normal' reporting requirements for all banks, values-based banks put an extra emphasis on reporting the impact and sustainable aspects of their business model and activities, allowing stakeholders to decide for themselves if they agree with the underlying value orientation of an institution.
Inclusive	Values-based banks aim to build an inclusive financial system that responds to the needs of everyone, and not just a few. This is reflected in tangible activity, such as focusing on providing financial services for disadvantaged or excluded groups. It is also reflected in the way these banks engage and include others in their relationships with clients, shareholders and other stakeholders.
Systemic	Beyond serving their own customer, values-based banks believe in the need for positive change in the banking system itself. For that reason, values-based banks work with others to change finance so it is better able to serve people and the environment. This means they engage actively and selectively with regulators, government and other banks that are genuinely committed to a transition to a sustainable future.

Differentiation Criteria

The following differentiation criteria deliberately compare best practice observed in values-based banking with standard practice in conventional banks. We are aware that this may generalize the qualities of traditional banks and, in some cases, be too critical about mainstream banks. We know some are making positive progress at least in some of these dimensions. Likewise, not all our members meet all criteria and still have room for improvement. Nevertheless, the comparison is helpful because it prompts a conversation about the essence of values-based banking and its distinguishing features.

	Conventional Banks	**Values-Based Banks**
Qualitative Aspects		
Governance	• Anonymous ownership, no direct relation between shareholders and the company • Owners' primary focus is on risk/return • Limited diversity on the board (primarily banking background, few women) • Limited diversity of leadership	• Owners and their motivations are transparent; owners are strongly invested in the mission; ownership may involve high degree of participation from multiple stakeholders; if listed, then safeguards are taken to protect the mission • Ownership models structured to safeguard the bank's social and environmental purpose • High diversity and many backgrounds represented at the board (including non-financial skills and know-how) • Leadership team is diverse.
Mission	• The primary purpose as defined in the statutes or articles of incorporation is banking/business • A short term perspective dominates business practices • While there may be some reference to responsible banking in the mission statement, growth, profitability, and shareholder value are the bank's main objective.	• A social or environmental mission is clearly stated in the statutes or articles of incorporation and grounded in the strategic focus, culture and practice of the bank. • Long-term well-being, healthy inclusive communities, positive social and environmental impact, social equity and solidarity are at the core of the mission statement • Quality and professional banking services are 'hygiene factors' that enable the institution's purpose.

Strategy & Policy	• Strategy is driven by investors' priorities. • Strategy is underpinned by competition. • Focus on individual customer benefits. • All sectors eligible if they contribute to profitability, are legally compliant and do not harm reputation. • Selective client approach, driven by the contribution margin. Financial inclusion not a priority, unless it aligns with the above. • Strong focus on the financial economy, including stock markets and speculative property.	• Strategy is driven by social and environmental priorities and the communities' needs and well-being • Strategy is collaborative • Focus on social equity and the well-being of the community • Strict exclusion criteria. • Targeted (mission-linked) sectors are clear. • Open and inclusive approach towards all clients enabling financial access for all. • Policies reflect purpose.
Accountability	• Accountability requirements mainly governed by investor requirements and regulation. • Disclosure hard to understand for clients and laymen. • Selective disclosure of positive impact with limited reporting on negative impacts • Non-financial disclosure gives disproportional weight to the non-financial impact of operations, over loans and investments. • Limited transparency regarding the social and environmental impact of all banking activities.	• Transparency and accountability is inherent to the business model. • Communication is transparent and easy to understand for all stakeholders. • Institutions are open about approaches to their own operations, such as remuneration policy and practice. • High transparency regarding the social and environmental impact of all banking activities, both positive and negative. • Targets are linked to non-financial performance and contribute to the institution's mission. • Stakeholders can easily and regularly engage directly with the institution.
Leadership & Culture	• Traditional and hierarchical corporate culture • Financial incentives are main motivator • Steep salary scale, significant differences between highest and lowest pay • Little staff participation	• Progressive leadership models and inclusive management • Intrinsic staff motivation • Limited/no financial incentives • Strong staff participation • High value and investment in personal and professional development of staff.

	• Training primarily focused on banking and business skills • Relationship with clients and shareholders is economically and transaction driven.	• Relationship with all stakeholders, including clients and shareholders, is mission driven and interactive. Strong stakeholder participation.
Quantitative Measures		
Social and Environmental Focus	• Only limited business is dedicated to projects with a specific social and environmental impact.	• Most business is dedicated to projects with a specific social and environmental impact. • Social and environmental performance is assessed and reported transparently • Sustainability-related data, as well as financial information, is used to help institutions understand, monitor and steer.
Real Economy Focus	• Only limited business is dedicated to businesses and projects in the real economy. • A large proportion of activity, and contribution to the institution's return on equity (ROE), is focused on the financial economy • Fully embrace the use of derivatives, complex financial investment tools and tax havens.	• Most business is dedicated to businesses and projects in the real economy. • Limited resort to derivatives and tax havens for practical purposes only, and not to conceal information or to avoid taxes.
Resilience	• Bank earnings fluctuate and are strongly correlated with market development. • Highly leveraged to maximize ROE; liquidity compromised for profit reasons • Strong dependency on capital markets for refinancing. • Low customer loyalty reflected in high price sensitivity of depositors; refinancing at par with market.	• Bank earnings that are stable through the economic cycle and a strong capital position reflect a prudent approach to risk and risk management. • Refinancing primarily through client deposits and/or value based institutional investors. • High customer and investor loyalty reflected in low price sensitivity of depositors and investors and high stickiness of deposits; refinancing below market rate.

Annex: Comparison of key concepts of sustainable and values-based finance

Values Based Banking

Values based banking is a mission driven approach to banking that puts finance at the service of people and planet. Social and environmental impact are at the heart of a values-based bank's business model. A focus on the real economy, strong engagement with its stakeholders, and a prudent approach to risk help make values-based banks financially resilient. Inherent in the values-based banking movement is a commitment to contribute to the positive development of the wider banking sector so it contributes to a more sustainable economy in the future.

Source: GABV

Sustainable Finance

Sustainable finance generally refers to the process of taking due account of **environmental, social and governance (ESG) considerations** when making investment decisions in the financial sector, leading to increased longer-term investments into sustainable economic activities and projects.

More specifically, **environmental considerations** may refer to climate change mitigation and adaptation, as well as the environment more broadly, such as the preservation of biodiversity, pollution prevention and circular economy. **Social considerations** may refer to issues of inequality, inclusiveness, labour relations, investment in human capital and communities, as well as human rights issues.

Source: European Commission.

Impact Investing

Impact investments are investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return. Impact investments can be made in both emerging and developed markets, and target a range of returns from below market to market rate, depending on investors' strategic goals.

Source: GIIN

The Principles for Responsible Banking

The Principles provide the framework for a sustainable banking system, and help the industry to demonstrate how it makes a positive contribution to society. They embed sustainability at the strategic, portfolio and transactional levels, and across all business areas.

Source: UNEP-FI