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Tree Planting Event Nov. 17, 2019. We have pledged to plant a tree sapling in the course of two years for each customer we had at our Bank – altogether 40,000 saplings. At this event we planted 2000 pieces near Ócsa Hungary in a natural reserve. The photographer is: @impact.design / Zs. Hamori.
Never doubt that a small group of thoughtful, committed citizens can change the world; indeed, it's the only thing that ever has.

Margaret Mead, Anthropologist

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On behalf of the Global Alliance for Banking on Values
# Table of Contents

- Executive Summary ..... 4
- Introduction ..... 5
- Step 1: Defining the market ..... 6
- Step 2: Focus on the main sustainability challenges in this market ..... 7
- Step 3: Back-cast the future you envision ..... 8
- Step 4: Analyse the current System loops ..... 9
- Step 5: Map the maturity of the initiatives so far ..... 11
- Step 6: Use the stakeholder matrix – Who needs to do what ..... 16
- Step 7: Develop and refine your actionable strategy ..... 17
- Discussion and conclusions ..... 21
This case study report presents if and how MagNet bank is an industry game changer for the financial sector. To answer these questions, it is important to keep in mind that MagNet Bank is a small bank with less than 1% market share in Hungary. Hence, the direct influence on other parts of the financial sector is limited. However, industry game changers can also have an indirect influence. Both dimensions are assessed in this case study report.

With regards to direct influence, MagNet Bank has a strong influence on certain niche players. MagNet Bank functions as a last resort for some NGOs, special schools, and other social organisations who have difficulties in finding financial resources at other banks. Additionally, the donation programmes provide a redistribution of wealth towards local volunteering initiatives who lack financial resources. For players like these, the influence of MagNet Bank is very important.

With regards to indirect influence, MagNet Bank is challenging the status quo by showing that there are ways to combine financial returns with a sincere focus on creating social impact. By doing so, MagNet Bank is changing the system dynamic in the financial sector by moving from phase 0 to phase 1 in the phases of sustainable market transformation.

Furthermore, the indirect influence of MagNet Bank is linked to changing market dynamics in the financial sector (moving from phase 1 to phase 2). MagNet Bank offers distinctive products through its community-based mentor deposit and loan programme, its “Pay as you like” account management system, programmes supporting social initiatives, donation programmes involving clients, and through a balanced-profit approach with owners, in addition to a responsible, and transparent dividend policy. Consequently, MagNet is putting pressure on any bank in Hungary to be explicit about their inclusion of social impact by making both private and wholesale clients aware that they have a choice how their money impacts our society. So far, the uptake of clients is still rather small, so the pressure on other banks often only results in CSR programmes rather than changing their business model. However, increasing environmental challenges have resulted in pressure on all banks to address these problems as part of their operations. In time, the same may happen with regards to social challenges.

The integration of addressing environmental and social challenges into the business model of banks requires a moral stance. For members of the GABV, like MagNet Bank, this moral stance is based on key principles that are embedded in the culture of the organization. A values-based bank like MagNet Bank embraces an intentional approach to triple-bottom-line business. This is enacted not only by avoiding doing harm by exclusion of investments they do not want to be associated with, but also by actively using finance to do good based on inclusion of organizations with an explicit positive social impact. To increase the impact of MagNet Bank on accelerating the market transformation towards social inclusion, building an alliance with other game changers and combining purpose with viability are probably most effective. In the perception of other actors, this would reposition the social inclusion practices by a bank from a niche market into the core financial market in Hungary. Next, more banks will start experimenting with similar practices (phase 1) and after some time the focus can shift to making social inclusion a key part of the business models of banks (phase 2).
This report captures the main findings of a case study conducted at MagNet Bank Hungary. This case study is part of the OSIFE research programme which aims to influence the development of the Taxonomy of the EU Green Deal by clarifying how ‘social impact’ in terms of inequality, job security, and equitable access to safe food, housing, energy, and health can be defined and integrated in the practices of banks. Instead of starting from scratch, this case study aims to contribute to this overall objective of the OSIFE research programme by highlighting the current practices of a values-based bank like MagNet. More specifically, the objective of the case study is to pinpoint pathways for transformation of banking models towards social inclusion by investigating the practices of the GABV member in Hungary: MagNet Bank. The methodology that is used for this case study is outlined in a separate document and is based on analysis of corporate reports and interviews with several executives of the bank.

See case study protocol OSIFE program, December 2020.
Since dealing with complex problems can be a daunting task, it is important to approach them step by step. Therefore, in order to properly identify sustainability challenges, as well as MagNet bank’s initiatives to meet them, it is important to first define the market in which these challenges occur. By discussing the focus of MagNet’s operations, we will determine the market that this case study is focused on. MagNet bank is a privately-owned Hungarian bank. As a values-based bank, MagNet is a community building, financial institution. This means that they focus on active social participation by working together with their clients in an effort to consciously develop the local, natural and social environment. Hence, MagNet Bank provides connection opportunities between various interest groups, such as deposit owners, loan recipients, non profit organizations, and private individuals and enterprises. 75% of its customers are from retail banking while its wholesale banking mostly consists of national SMEs and NGOs. MagNet Bank sees itself as a local player as is indicated in the next quote:

“As a local bank, we have to align our business model to local challenges, local social values. We have to address the specific needs of our community. Therefore, it’s important to not just provide value, but to also create connection: engage people.”

Because of MagNet Bank’s focus on local communities, the current case study will focus on the Hungarian market for financial services, including the retail and wholesale banking. Within this market, MagNet Bank is positioned as an industry game changer:

“We have a totally different approach. Not just profit, create values with regard to the environmental and social dimensions. All of these are equally important. Not on the level of mission: it’s a thing that happens day-by-day within the bank, how we relate to our customers, and how we involve them into programmes.”
Now that the market has been defined, the next step entails identifying its main sustainability challenges. The decision has been made to focus on sustainability challenges that have a high level of influence on the market’s business success and are of a high level of importance to stakeholders. Although the number of issues that fit this description extends beyond those that we have chosen to focus on, the following list entails the ones that stand out:

- Limited societal support for human rights, diversity, and solidarity
- Social challenges such as the bad shape of health care and lack of access to proper education
- Environmental and climate challenges
- Post-Covid social and economic challenges

Due to the focus on social inclusion, the environmental and economic challenges are beyond the scope of the current research. Conversely, the focus of the current research is on Hungarian people who lack access to health care, education, and other social needs. More specifically, the focus of this case study is on how banks can contribute to the inclusion of people in society to the point that these needs can be met.
STEP 3: BACK-CAST THE FUTURE YOU ENVISION

Now that the market has been highlighted along with its main sustainability challenges, the next step in a systems analysis is to envision a future in which the possible solutions for sustainability challenges are fully institutionalized. The position of MagNet Bank will have changed as the market will be completely different. This is indicated by the following quote:

“It would raise the awareness. It would create competition and result in better solutions. MagNet would have a reduced position in the market because it would be harder. Yet, it’s also a good thing. Maybe in 50 years we will be obsolete because the big banks have adopted our strategies. That would be a positive outcome.”

This also implies that transparency has become a common practice for all financial services. Transparency is so important because it creates awareness and gives people a choice:

“Each and every client is aware what his money is doing. Transparency and awareness will stimulate clients to make the right decisions. At the end of the day, clients can choose which services they want to support.”

An important part of the future that MagNet Bank envisions is the integration of ESG (Environment, Social, Governance) models in all types of organizations. Due to the pressing climate challenges, environmental aspects are key for any organization. Although climate challenges will have consequences for social issues, such as migration, focusing on the environment alone is not enough. Due to the privatization of the healthcare and cultural sectors, the social aspect of ESG is just as important. In order to address this, the governance aspect in ESG will become much more important. Governance requires a strong moral compass to guide decision making in organizations, as indicated in the next quote:

“In the latter model I’m very happy about the G (governance) because it means that sustainability and social impact are embedded in the DNA of the company: in the policies, processes, and products of the company.”
STEP 4:
ANALYSE THE CURRENT SYSTEM LOOPS

One of the key takeaways of systems thinking is: ‘the problem we see is not the problem we need to solve’. The problem we perceive is a natural outcome produced by a system. In order to fully understand that system, we have to analyse its deeper levels. In order to do this, we distinguish four generic system loops (see figure 1). When these four loops coincide, they create unsustainable outcomes.

In general, banks are required to operate in a context where sustainability challenges are seen as risks, due to the need for high financial return on assets, rather than of opportunities for long term investments. Additionally, when it comes to stakeholders, the bank’s business model operates as a black box: stakeholders know what goes in at one end and what results come out at the other end, but they are left in the dark with regards to money stalled at the bank. MagNet Bank uses a different approach. This is illustrated by the following statement:

“We won another award that year though. It shows that the jury is aware that CSR is not enough, it’s not enough to just donate money from the black box. How you make your money and how you involve people and create values are even more important than just donating some money through CSR.”

Moreover, the system loops for traditional banks also result in a loss of overview with regards to financial risks and allocations of investments. The next quote addresses this point:

“What we see everywhere is the proliferation of shadow banking. There are many drivers to move the financial sector in that direction. That is a big risk because they are outside the scope of regulation.”

This illustrates the functioning of the four system loops. As a follow-up of the financial crisis, governments have become stricter in solvency requirements towards banks. This has an effect on the market dynamics of all banks. However, if banks create an alternative that is outside the scope of regulation – like shadow banking – they can circumvent these requirements. In the long run this can undermine the stability of the financial system; the same problem that the stricter requirements tried to solve.
However, this doesn’t mean that a more sustainable outcome isn’t possible, we just have to understand that the four loops influence each other. The main system loops for traditional banks are presented in the following figure:

Like other banks, MagNet has to operate within this context. Yet, MagNet intentionally chooses to use a triple-bottom-line approach (People, Planet and Prosperity) in their business activities: they don’t just avoid doing harm, they actively use finance to better the local community. By doing so, MagNet reroutes the processes within their own organization and is able to provide an alternative for clients. Furthermore, through their practices, MagNet challenges other banks on their implicit moral values by proving it is possible to combine strong financial returns with positive social impact. Consequently, their existence serves as evidence that transparent banking is possible.

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Often, it is assumed that we have to come up with new initiatives to stimulate market transformation. While this statement holds true in most cases, there are also situations in which there are more than enough initiatives for change. Yet, only few of them gain traction. The current section serves as an overview of the initiatives that MagNet Bank is already performing to incite change. We will also discuss how each of these initiatives relate to the underlying system loops portrayed in figure 1 on the previous page.

MagNet Bank does not intend to directly create social impact, rather, the bank views its role as assisting its clients in creating social impact. The bank’s value proposition is to develop banking instruments that support the realization of positive improvements in the world. MagNet Bank endeavours to link deposit owners and loan recipients. Additionally, the bank claims to not just sell bankcards, deposits or loans, but to change people’s relationship with money. Moreover, the bank is focused on making the impact of its individual clients more visible by making decision alternatives more transparent and plotting the course an individual’s money takes. This is apparent from the following quote:

“Every customer should see what their impact is and how it’s important. The bank is a platform for other people, such as clients, to do good.”
MagNet bank is strongly involved in addressing social issues through various levels of innovation, as well as by emphasizing the creation of shared value. They do this through the following activities:

1. **A business model with purpose.** MagNet Bank’s business model is imbued with value creation that is especially focused on healthcare, green energy, education, agriculture and fair trade. MagNet’s products and services are designed and developed to meet the needs of people and safeguard the environment (Triple P). Although generating reasonable profit is seen as an essential requirement of sustainable banking, it is not a stand-alone objective.

2. **Customer engagement as part of the products on offer.** One of MagNet Bank’s goals is to engage clients in the process of value creation in order to make clients aware of the importance of their actions. This is done by offering special decision-making rights to the clients. Through these rights, clients have the opportunity to support the organizations, or the specific projects, that are important to them. This is illustrated by the following quote:

   “Schools like that are usually not original business players (SMEs). An association is behind them. As a result it’s hard to finance them. Yet, we provide them with a loan. Subsequently, the loan is placed on a website where clients can choose to put their deposit in the loan. As a result the loan is lowered by the amount of the deposit. Once again it is focused on community: the parents can take their money to the bank, which is liquidity for the bank, it is also good for the school because their loan is lowered. Finally, it’s good for the parents because they get a sense of involvement.”

3. **Innovative approaches towards creating multiple returns.** MagNet Bank provides special loan benefits to NGOs who are in need, as well as for special projects such as alternative types of schooling. With regards to retail clients, the bank offers the “Pay as you like” system. This system allows clients to decide upon the price for the management of their account, as the following quote will illustrate:

   “Anyone who is our retail customer is allowed to pay any figure for the monthly maintenance fee of their account. We don’t want to exclude anyone from banking with us. We make our costs to keep an account public (around 1 euro). This is for transparency. It’s a way to get people to consider that the service does cost money, even if their account is empty.”

This system, called the mentor and sector system, enables clients to specify the loan purposes for which their financial deposits may be used. As a result, clients are more involved with how the money is used on local projects: they are able to experience how their personal decisions can influence local changes. Concurrently, with the participation of depositors, MagNet is able to reduce the loan burdens borne by socially beneficial projects. Two other products designed to engage clients with value creation are the community impact scorecard or community index (used for retail clients) and the loan impact scorecard (used for corporate clients). The second one is integrated in the loan process: if a client takes out a loan with MagNet, a scorecard is made in order to indicate how that client’s use of the money would impact the environment. Consequently, both products serve to make the client more aware of their impact on the local community and increase their involvement with it.
Through the “Pay as you like” policy, the price paid for the bank’s services is flexible. Although this makes it possible to offer services to a client based on how much they can afford, the fact that the bank’s services could be used for free poses a moral dilemma:

“That’s something interesting because it’s against the rules of GABV: you have to pay the fair price. Of course, the fair price is not zero because if you pay zero somebody else is going to have to pay more than the fair price. So we did a sort of experiment: you can pay as you like, but we’re going to tell you what the service costs. As a result, about 50 to 60% of the clients end up paying the cost.”

With regards to credit scoring, MagNet Bank applies positive screening measures in order to favor projects which have beneficial impact on society and the environment. For example, the bank offers reduced requirement for equity when financing green projects or social projects. In situations like these, the impact assessment through scorecards is key:

“Operations are operations. We are talking about money transfers, credit assessment, that stuff is pretty standard. The one element in which we are different from other commercial banks is the use of the impact scorecard. It’s integrated in the loan process itself. So, if you are a company and would like to ask for a loan. We’ll make a credit assessment, a client assessment, and an impact assessment. It doesn’t affect the loan itself, it just shows how you would impact the environment. It’s an extra service. Strictly from an operational point of view, the impact scorecard is the big difference.”

4. **A radically transparent approach towards stakeholders.** MagNet Bank is remarkably transparent with regards to their practices. For example, every year the bank calculates its clients contributions to the annual profit and shares this information with them. Additionally, the bank has a community index designed to inform clients in how many of the bank’s initiatives they participate.

5. **Community investment.** Every year 10% of the after-tax profit is set aside for the Community Donation Programme (CDP). The programme’s objective is to strengthen employees and clients who commit themselves to civil initiatives actively. Clients decide what non profit organizations participating in the CDP programme receive the donations.

6. **The focus on organizational culture is the foundation.** Part of MagNet Bank’s strategy is to reverberate its ideals in its organizational culture. Or to put it more strongly, it is the other way around. Only if the values are embedded in the organizational culture, it is possible to enact a strategy like the one of MagNet. Therefore, there are many activities stimulating a values-based culture. The focus on multiple value creation needs to be a part of the discussion in the workspace in order for employees to understand each other’s point of view, goals, and inspirations. Additionally, the business model should be reflected in the workspace: MagNet Bank buildings have living green walls and open terraces, as well as lactose and gluten free meal options for their employees. Typically, employees are involved in donation programmes and communicate this to their clients:

“Being a GABV bank means getting paid less because you’re not incentivized to sell more through huge bonuses. Yet, our people are not driven by that because they are in a different mindset. That’s why we do leadership programmes with NGOs. Because it puts people on location and brings them directly in contact with problems.”

Step 5: Map the maturity of the initiatives so far

13
Step 5: Map the maturity of the initiatives so far

The different activities of MagNet Bank are plotted in the four phases of Sustainable Market Transformation in Table 1.

Table 1: Initiatives of MagNet Bank plotted in one of the four phases

<table>
<thead>
<tr>
<th>Phase 1</th>
<th>Phase 2</th>
<th>Phase 3</th>
<th>Phase 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Community Donation Programme (CDP)</td>
<td>Products designed to contribute to People, Planet and Prosperity (Triple P)</td>
<td>Clients have decision rights for social impact (Impact Card)</td>
<td>Screening criteria adjusted based on social impact</td>
</tr>
</tbody>
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Being transparent about social impact projects creates awareness with clients and changes their relationship with money.
Table 1 indicates that most activities of MagNet Bank stimulate the system dynamics of phase one and phase two. With their initiatives in phase one, inception phase, MagNet is mostly focused on actionable alternatives through projects and pioneering pilots (e.g., charity and subsidy programmes) alongside their core business. Conversely, the initiatives in phase two, competitive advantage phase, see MagNet use proven business models, such as labels, rankings, and branded programmes, and integrate them in the competitive advantage of their business.

The initiatives of phase one are changing the alternative system loop, as is illustrated by the next quote:

“What MagNet practices are being adopted by banks other than MagNet? Their communication and initiatives are changing for the better: they are trying to show themselves as more responsible. This could be the beginning of growth. Pressure mainly comes from clients. NGOs are not directly applying pressure, but their customers are incentivizing them to make changes/partake in changes.”

Meanwhile, the initiatives of phase two are changing the market dynamics system loop, as is illustrated in the next quote:

“When we work with NGOs and our clients experience how, with transparency, their money is donated to support humanitarian work without causing a backlash, our clients experience a sense of empowerment as well as the sense that it is actually the right thing to do to support organizations like that. The clients are also shown that they’re not each others’ enemies but instead are part of the same society. Consequently, a positive feedback loop arises: we are supported in our mission by our clients, and as a result we can draw in new clients.”
STEP 6: USE THE STAKEHOLDER MATRIX – WHO NEEDS TO DO WHAT

With the relevant initiatives identified, the next step entails determining what roles are most effective for each of the market actors in the market's current phase. Spearheading market transformation processes means stimulating the right stakeholders to take the right actions in each phase. In turn, this will create the right circumstances for individual market actors with opposing, short term self-interests to become able and willing to increasingly work together in finding solutions to shared problems. In every phase of market transformation there are specific roles and patterns of behaviour from different stakeholders that fit the dynamics of that particular phase.

MagNet Bank's activities influence the system dynamics of phase 1 and of phase 2. Yet, considering the relatively small uptake in clients (phase 2), it seems that more awareness is needed regarding the possible roles that banks could play when it comes to social inclusion (phase 1). Achieving this would require stronger connections between the bank and other business players, both within and outside the financial sector, as this could achieve a more scalable impact valuation, as well as an increased transparency regarding the impact of investments and how they end up being used. MagNet Bank’s practice of disclosing involvement of clients and their corresponding actions would be a suitable method for this.

Additionally, both academics and European governmental opinion leaders should help the spread of knowledge about good practices/solutions in order to further stimulate the awareness that is needed for phase 1. MagNet Bank could contribute to this, as is illustrated by the following quotes:

“As MagNet Bank we are seeking positive changes in the entire system rather than becoming the biggest bank in the industry” and “Not MagNet bank should grow, but the business model should be common. As GABV bank members, we shouldn’t be focusing on doubling our impact. Instead, we should be focusing on changing the system. We don’t want to grow and let all dinosaurs die out, we want to change the approach of our competitors.”

Changing the entire system is done via different layers:

“We have a rule: we focus on value creation, we need to show that, and cause a mindset shift.”

However, change does not come without challenges:

“We have fair pricing, but as a result we’re not cheap. A lot of the bigger banks offer better pricing and the reality in Hungary is that if you can get a better price somewhere else, even if you are an NGO, you switch banks.”

Therefore, scaling the business model of MagNet Bank requires that clients, as well as other stakeholders in the financial sector, learn to reward sustainable behaviour. This is the core of phase 2. In the long run, the focus of stimulating sustainable market transformation should shift towards the market dynamics loop (phase 2). However, for now, stimulating other banks to take action with regards to social inclusion is already a challenge.
Based on the knowledge of the current momentum in the market, it is possible to develop a strategy for the near future. This strategy should answer the magic questions: Who should do What, and When should they do it? The effectiveness of the actions of one actor will depend on what others are doing. In order to solve complex challenges, a portfolio strategy is needed that spells out what each organization can do in the current phase and how organizations can influence one another to play their part. Knowing what not to do or what to stop doing is often just as relevant as knowing what to do and what to start. We will now discuss four different possible strategies and their advantages and disadvantages. All four strategies are focused on accelerating change from phase 1 to phase 2, meaning that also the major banks in Hungary start integrating social inclusion in their products and services. However, this can be stimulated by pressuring them (lobby strategy), by informing them (spotlight strategy), by showing them (viability strategy) or by joining forces with them (alliance strategy).
**Lobby strategy:** The first strategy would entail establishing a lobby to increase the pressure on mainstream banks to initiate pilots and projects in relation to social inclusion. However, mainstream banks see MagNet Bank as an interesting actor that is doing things differently, but MagNet Bank is not challenging the status quo because it is operating in a niche market. Therefore, the lobby strategy requires cooperation as MagNet Bank is doing as a part of the Global Alliance for Banking on Values.

**Spotlight strategy:** The second strategy entails reaffirming good practices by putting a spotlight on companies that integrate a lot of these practices into their business. Although this strategy will undoubtedly generate a lot of goodwill for the businesses that incorporate good practices, it is unlikely that it will convince established market players to reorganize their business. As a result, it is possible that this strategy will have some effect on the market. Yet, the fact that it does not incorporate established market players will likely mean that it does not contribute that much to a market transformation.

**Viability strategy:** The viability strategy is based on showcasing that purpose and results can go hand-in-hand. In essence, this strategy is based on creating shared value where social results and business results depend on one another. The implication of this strategy is that MagNet Bank focuses for the upcoming years on strengthening the business model behind their values-based services. If this strategy is successful, it transforms the perception around MagNet Bank showing that values-based banking is possible, to showing it is viable, to showing it is desirable.

**Alliance strategy:** Finally, the fourth strategy consists of smaller market players, such as MagNet bank, forging alliances with established players. This strategy boasts the advantage of incorporating established players into the strategy for market transformation. One option is to build an alliance with a mainstream bank in Hungary and engage with them to learn how the practices of MagNet Bank can be translated and applied by that bank. Yet, small players will have to be very careful when crafting contracts with their bigger counterparts if their message is not to become muddled as a result. In practical terms, this entails documented terms and conditions that protect their good practices. Other options are to build alliances with other values-based organisations. Especially, values-based SMEs (B-Corps, purpose driven business) and mission-driven NGOs seem logical options for this strategy.
When developing a strategy in order to stimulate the system dynamics to move from phase 1 to phase 2, the following initiatives are fitting inclusions: fostering partnerships and building a community, presenting potential investment opportunities for SMEs and NGOs, and creating awareness about the roles that banks can play in the protection of positive values. MagNet Bank takes part in these initiatives by emphasizing the importance of social problems and correlating these with sustainability. By doing so the bank sets an example for other players within the market. Additionally, MagNet’s enhanced transparency strengthens market awareness with regards to environmental and social considerations. This is further facilitated by the company exercising discipline based on its underlying values:

“In Hungary there was a big scandal when it turned out the banks had given high risk Swiss Frank loans to clients. Yet, the founders of MagNet proclaimed that clients would not be able to oversee the risks of such loans, and so MagNet did not offer these types of loans. A lot of employees were very annoyed with this. Of course, when the loans turned out to be a problem, caused a scandal, and the government had to intervene, MagNet remained unaffected.”

Instances like these create more interest, as well as awareness, about MagNet Bank’s alternative course among their potential clients. Consequently, the role of industry game changer needs to be developed over time. This is illustrated by the following quote:

“Other banks (early on) laughed at MagNet bank. We were not considered a respectful bank, not taken seriously. Now that we are 25 years old, they have come to understand us. In recent years environmental issues have become recognized as serious and respect for us has grown as a result of it. Our expertise with regards to this field has become recognized by other banks.”

Aside from MagNet Bank, the Hungarian national bank could play an important role as part of an alliance strategy. As the following quote illustrates, they have already started to step in, in order to force other banks to adopt more environmentally aware practices:

“The Hungarian national bank stepped in with regards to this issue. They are forcing other banks to adopt a more green direction. They do this by exerting pressure on banks so that they offer greener loans, and they also give out awards. It would be a great step if the central bank could emphasize also social issues making them more visible within society.”
One way in which the Hungarian national bank could stimulate awareness about social issues and social inclusion is by serving as a platform to share ideas amongst bankers through organizing events designed for this very purpose:

“We don’t have specific forums/platforms to share ideas among bankers about impact. It’s hard to walk through someone’s door and just start asking questions. What are your challenges? How do you solve specific problems? Do you want to share?”

Compared to the Hungarian national bank, the role of NGOs is more nuanced. They can stimulate awareness about specific topics, yet they are not in a position to stimulate system change:

“Other institutions such as the SIA (social impact award) and other international players are dedicated to ESG. We have those types of players. NGOs are more focused on human rights or social inclusion. They are not focused on over-arching changes. It is more reasonable for them to tackle a specific problem.”

Finally, the influence of corporate holdings is key to such an alliance strategy:

“Most of the Hungarian banks are multinationals. The real effect comes from the mother companies. What the mother company says is going to happen. Banks do change, but not because of MagNet bank.”
DISCUSSION AND CONCLUSIONS

This case study is part of the VALoRE programme. The overall objective of this OSIFE-funded programme is to strengthen the capacity of the financial sector in Europe to deliver a just transition to a low carbon, socially inclusive future. More specifically, VALoRE aims to influence the development of the Taxonomy of the EU Green Deal. The Taxonomy Regulation includes a clear requirement to respect Human Rights following the OECD guidelines. However, there is no agreed upon definition of ‘social impact’ beyond human rights. Inequality, job security, and equitable access to safe food, housing, energy, and health are yet to be included in the taxonomy of sustainable activities. The principle-based approach to banking of the Global Alliance for Banking on Values (GABV) and its members show what the role of financial institutions can be in the move towards a low carbon, socially inclusive future. This case study of the activities and influence of MagNet Bank in Hungary illustrated the key principles for Values-Based Banking that define GABV banking institutions’ practices and culture:

1. Social and environmental impact and sustainability are at the heart of the business model.
2. Business grounded in communities, serving the real economy, and enabling new business models to meet the needs of people.
3. Long-term relationships with clients and a direct understanding of their economic activities and the risks involved.
4. A business that is long-term, self-sustaining, and resilient to outside disruptions.
5. Transparent and inclusive governance.
6. All of the aforementioned principles need to also be embedded in the leadership and the culture of the member financial institution.

Furthermore, the analysis of this case study on MagNet Bank shows that the current systems dynamics focus on phase 1. In this phase, other actors in the financial sector learn that social inclusion is, and should be, a part of the activities of banks. In order to strengthen this phase, actions are needed from the Hungarian national bank, NGOs and the corporate holding which some Hungarian banks are a part of. Moreover, the direct and indirect influence of MagNet Bank is a key part of the current dynamics in phase 1. Therefore, MagNet Bank can be considered an industry game changer: without their presence, other actors in the financial sector would probably still be in denial about social inclusion (phase 0). MagNet Bank proves it is possible to create positive social impact and good financial returns and is transparent about the ways in which they do this. To increase their impact, it is probably most effective if they apply a combination of the strategies put forward in this paper, with an emphasis on the viability strategy. This would require adapting the practices of MagNet Bank, redefining productivity, and developing an eco-system that supports this. However, if this is done successfully it would generate knowledge for all banks to learn how to develop social inclusion practices that fit with their positioning and business model.
Tree Planting Event Nov. 17, 2019. We have pledged to plant a tree sapling in the course of two years for each customer we had at our Bank - altogether 40,000 saplings. At this event we planted 2000 pieces near Öcsa Hungary in a natural reserve; the photographer is: @impact.design / Zs. Hamori.