CHANGE FINANCE

Seven Principles for Sustainable Banking Regulation

The importance of banking regulation and policy

Banking activities are not neutral. The impact of banks on society can be both very positive and very negative. The Global Alliance for Banking on Values (GABV) is a network of values-based banks who put people and the planet at the heart of everything we do. In addition to the member banks financing change, the GABV also has the ambition to change finance. However, being front-runners in the industry is not enough and a whole-system approach is required.

The financial system needs to both steer banks away from doing harm and to enable them to holistically and intentionally benefit communities and businesses that operate in the real economy. It is important for governments to develop a clear regulatory framework that focuses on how banks fulfil their societal responsibilities, what they finance, whom they serve and how they organise themselves. This helps move all banks in the right direction.

> To this end, the GABV calls on policymakers to focus on seven principles for sustainable banking regulation. Below, we summarise what is needed to make meaningful progress towards a banking industry that supports a fairer, greener and more inclusive society.

Seven guiding principles for policymakers

1 Steer towards long-term value creation

Policies should prevent banking strategies that prioritize short-term profit maximisation and, instead, enable long-term value creation for society at large.

2 Broaden the concept of risk

- Risk should not only be assessed from a financial perspective. Social and environmental risks shall also be taken into account.
- Smaller institutions create less systemic risk. Sustainable, future-proofed activities create less risk. Risk policy shall be proportionate reflecting the real risks different sized institutions present.

SEVEN GUIDING PRINCIPLES FOR POLICYMAKERS

3

Accelerate finance for good and prevent finance that does harm

- The financial system should aim to encourage investment in a sustainable and regenerative economy and in social infrastructure (such as healthcare, education and housing).
- Financing activities that do harm (such as those that expand fossil fuel extraction) should be discouraged or phased out, and/or financing should deliberately aim to transform negative into positive impacts and sustainable business models.
- Reporting and administrative burdens should be lower for financing activities that benefit people and the environment than for harmful activities.

4

Focus on the real economy

Lending shall serve a productive, forward-looking economy. Banks should focus on the actual needs of people and businesses in the real economy rather than on the financial economy. The real economy relates to activities that directly generate goods and services, as opposed to the financial economy that is concerned exclusively with activities in the financial markets.

5

Ensure inclusivity

Banks should always be as accessible as possible. Financial and credit services should be accessible to all and not exclusively tailored to benefit the wealthy.

6

Foster a diverse banking landscape

- Rules shall not solely be designed for global banks but shall also allow small-scale or values-based institutions rooted in communities to compete fairly.
- Proportionality and multiple banking models help ensure a financial system that is resilient, adaptable and aligned with broader societal goals. Policy frameworks should enable a diverse banking landscape.

7

Require transparent and inclusive governance

- Decision-making, strategy and activities of banks should be fully transparent.
- Banks should actively engage relevant stakeholders, particularly clients and co-workers, in their governance.