GABV POSITIONING PAPER

GABV Brand Values and Differentiation Criteria

21 October 2020 — Amsterdam, The Netherlands

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.

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.

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.

> 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.

Eight brand values of GABV member banks

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.

Coherent

Values-based banks take a coherent approach with respect to social and environmental impact — avoiding the incoherence and inauthenticity of greenwashing.

Ambitious

Values-based banks aspire to the highest standards, acknowledging they can always learn and improve. They assess performance vis-à-vis conventional and values-based peers and continuously progress. Exclusion criteria are defined more ambitiously than in mainstream banking.

Authentic

Values-based banks maintain an open and honest approach to their shortcomings and work to improve them. Their communications are transparent, honest and easy to understand. By integrating values into their businesses, they are genuinely authentic.

GABV BRAND VALUES

Contextual

Banks operate in different cultures and regulatory regimes. Values-based banking acknowledges universal norms — such as human and labour rights — while recognising that social and environmental challenges are complex, linked, and context-specific.

Transparent

Accountability is expressed through a high degree of transparency at all levels of the business model. Values-based banks go beyond normal reporting requirements to transparently disclose the impact and sustainable aspects of their activities.

Inclusive

Values-based banks aim to build an inclusive financial system that responds to the needs of everyone. This is reflected in providing financial services for disadvantaged or excluded groups and in how they engage clients, shareholders and other stakeholders.

Systemic

Beyond serving their own customers, values-based banks believe in the need for positive change in the banking system itself. They work with others — including regulators, governments and committed banks — to build a more sustainable financial future.

GABV BRAND VALUES

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 generalise the qualities of traditional banks and, in some cases, be too critical about mainstream banks. 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 • 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) • Leadership team is diverse
Mission	• The primary purpose as defined in the statutes is banking/business • A short-term perspective dominates business practices • Growth, profitability, and shareholder value are the bank's main objective	• A social or environmental mission is clearly stated in the statutes and grounded in strategic focus, culture and practice • Long-term well-being, healthy inclusive communities, positive social and environmental impact are at the core of the mission • Quality banking services are 'hygiene factors' that enable the institution's purpose
Strategy & Policy	• Strategy is driven by investors' priorities and underpinned by competition • All sectors eligible if they contribute to profitability and are legally compliant • Selective client approach, driven by the contribution margin • Strong focus on the financial economy, including stock markets and speculative property	• Strategy is driven by social and environmental priorities and communities' needs and well-being • Strategy is collaborative with strict exclusion criteria • Open and inclusive approach enabling financial access for all • Policies reflect purpose
Accountability	• Accountability 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 • Limited transparency regarding the social and environmental impact of all banking activities	• Transparency and accountability are inherent to the business model • Communication is transparent and easy to understand for all stakeholders • High transparency regarding social and environmental impact of all banking activities, both positive and negative • 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 • Training primarily focused on banking and business skills • Relationship with clients and shareholders is economically and transaction driven	• 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 • Relationship with all stakeholders, including clients and shareholders, is mission driven and interactive. Strong stakeholder participation
Quantitative aspects		
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

Comparison of Key Concepts

Sustainable and Values-Based Finance

1

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

2

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

3

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

4

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