CHAPTER 1

# Overview

**Abstract** This chapter provides an overview of the structure of the book, identifying the main themes of any chapters and clarifying the main aims.

**Keywords** Sustainable banking • Financial crisis • Sustainable development

## 1.1 Introduction

The consequences of the financial crisis have strengthened interest in sustainable business models, and investors are giving increasing notice to sustainable business management that takes environmental, social, and governance (ESG) criteria into consideration. In recent times, the concept of sustainability has grown in recognition and importance, and has become one of the most talked about topics. Exponential population growth, global warming, and a growing disparity of incomes have all given rise to evermore insistent calls for social justice and environmentally friendly development.

The linkages between finance and sustainable development have been explored by many academics, and recent studies underline that sustainability can be useful in improving the stability of the financial system (Liu 2012; Alexander 2014) and that sustainability and ethical values can play a key role in finance (Lehner 2016). Being capital providers, banks can help address new economic realities linked to environmental and social (E&S) sustainability and can contribute to national sustainable development agendas (IFC 2017).



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Sustainable behaviors are gradually becoming more embedded into banking business models and strategies. This signals a radical change of direction in the way that banking industry has approached financial markets in the past. Therefore, this promising approach can be considered as strategic in its intent and purposes, as banks are capable of being "sustainable" while pursuing their profit-making activities. This transformation implies that the banks' commitment may represent a viable way to add value to the business itself while also adding value to society by promoting sustainable development. Banks are currently involved in national and international sustainability programs, are included in national and international sustainability indices (e.g., Dow Jones Sustainability Index and Financial Times Stock Exchange4Good [FTSE4GOOD]), and participate in national and international business sustainability programs, such as those hosted by the United Nations. The connections between the issue of sustainable development and banking activities can be detected in the 1990s, when banks had increasingly begun to incorporate environmental requirements into their lending decisions, developed risk assessment procedures to offset potential liability for environmental damage caused by their borrowers, and developed many corporate social responsibility and risks agendas (Coulson and O'Sullivan 2013). Banks are becoming aware that their clients' mismanagement of environmental risks may affect their own business as lenders and their reputational capital (Jeucken 2011; Bouma et al. 2017). Environmental risks influence the counterparty risk; therefore, banks affect sustainable development directly—through their "day-to-day" operational activities (Case 1999; Jeucken 2011)—and indirectly, through the products and services they offer (Thompson 1998; Case 1999; Weber 2012; Bouma et al. 2017).

Actually, several key changes are occurring in the regulation and supervision of banking (and financial) systems at the international level. However, regardless of regulatory regime, several banks have incentives to voluntarily provide information regarding their engagement in sustainable practices (Carnevale and Mazzuca 2014; Carè 2017). What emerges from these conditions is that the way in which banks operate is changing. External and internal pressures are transforming the approach of banking, and in this scenario, banks can gain advantages from the new business opportunities that sustainability offers.

This book provides an exploratory analysis into the field of sustainable banking and is based on the following research objectives: (1) to explore the concept of sustainable banking both in theory and in practice, (2) to understand what the main drivers are that are pushing banks toward a more sustainable business approach, and (3) to determine the main opportunities and challenges that can be derived from this new banking concept.

In pursuing these objectives, this book utilizes the two most important definitions of sustainable banking. In particular, Weber (2012) explains that sustainable banking integrates ESG criteria into traditional banking and sets ESG benefits as a key objective. The authors also summarize the main aspects of sustainable banking as follows: (2) internal environmental management; (2) environmental credit risk management; (3) socially responsible investment; (4) carbon finance; and (5) impact investment.

The second definition is provided by Bouma et al. (2017) and highlights that "sustainable banking" can be considered a *dynamic term* because its definition changes over time and considered a term without clear borders because the relationship between banks and their stakeholders make the concept relevant to actors other than just the banks themselves. The authors also highlight a series of themes that are fairly central and interrelated, such as (1) the policies of banks, (2) communication and transparency, (3) environmental investments and environmental risks, and (4) the role of governments, nongovernmental organizations (NGOs), and multilateral banks (Bouma et al. 2017).

This book is founded upon four major aspects that characterize sustainable banking: risks, products and services, transparency and communication, and external pressures. Overall, the book is organized as depicted in the framework of Fig. 1.1.

In Fig. 1.1, the four aspects shown (transparency and communication, products and services, risks, and external pressures) are the starting point of the entire book and are analyzed both in theory through Chaps. 3 and 4 (on the left side) and in practice through Chaps. 5 and 6 (on the right side). Moreover, to address the main theme of this book, the relationship between ethics and finance has been analyzed by providing some useful insight for the understanding of the main drivers that are moving academia in considering new alternative finance and business practices. Finally, Chap. 7 draws on the previous findings of the entire book and highlights future research directions. In the following, Chaps. 2, 3, 4, 5, 6 and 7 are illustrated in more detail, and the core idea of each chapter is outlined.

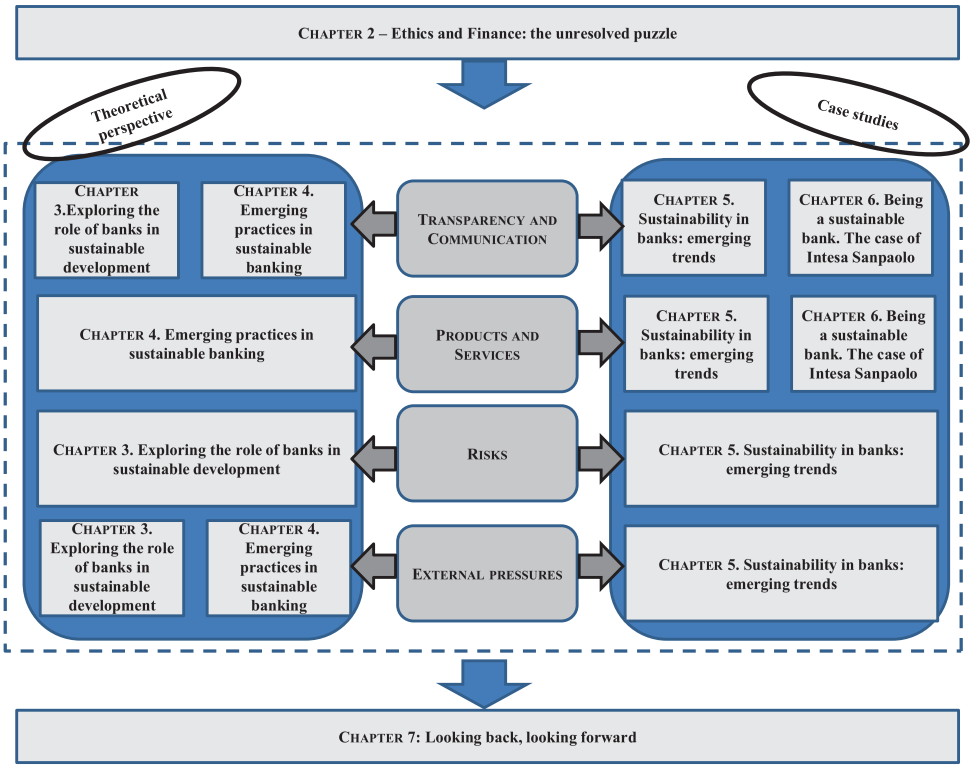


**Fig. 1.1** Book outline (Source: our elaboration)

## 1.2 Chapter 2: Ethics and Finance: The Unresolved Puzzle

The chapter moves from recent critiques of mainstream finance and provides an excursus on the role of ethics in finance. By underlining how several scholars have questioned the essence of neoclassical approaches based on rational behaviors and profit maximization, this chapter focuses on the emerging role of alternative approaches and on the themes of social finance and social banking. At the same time, the chapter outlines the new pathway that is affirming academic finance and banking research by focusing on social finance and social banking. Finally, it offers in Appendix 2.1 an analysis of two of the most important social banks and lays the basis for the comparison with sustainable banking in Chap. 7.

## 1.3 Chapter 3: Exploring the Role of Banks in Sustainable Development

This chapter provides an overview of the role that banks can play in sustainable development and of the major challenges and opportunities that emerge from this new business approach. Environmental and social pressures are linked with sustainability and are the main thread of the entire book. This chapter highlights the contributions of the banking system in the achievement of sustainable development, by underlying the major changes that occurred at the international level. Then, it introduces the role of CSR practices towards sustainability in banking by focusing on the role of the credit risk management process and describes how sustainability issues might create value for banks.

## 1.4 Chapter 4: Emerging Practices in Sustainable Banking

Environmental concerns are pushing banks towards the development of new products and investment and communication strategies. From the banks' point of view, sustainable products may be seen as both a strategic and commercial opportunity. At the same time, communicating bank engagement in sustainable approaches may represent a pathway towards new market opportunities in terms of reputation and customer perception.

This chapter gives an overview of the most important sustainable products and services developed by the banking industry and describes the role of sustainability disclosure in terms of both opportunities and risks of inactions.

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## 1.5 Chapter 5: Sustainability in Banks: Emerging Trends

The chapter compares the sustainability and environmental disclosure practices of European banks from a practical point of view. Through an exploratory analysis based on multiple case studies, six banks enclosed in the Global 100 Sustainable Companies have been scrutinized. The chapter represents the starting point from which this book tries to understand what it means to be a sustainable bank from a practical perspective. In particular, it is based on the analysis of disclosed information and thus analyzes banks' behaviors and efforts towards sustainability from an external standpoint.

## 1.6 Chapter 6: Being a Sustainable Bank: The Case of Intesa Sanpaolo

This chapter—by using a single case study approach—is based on the experience of Intesa Sanpaolo Group. This chapter has been written in collaboration with Intesa Sanpaolo's External Relations Department and highlights in a comprehensive manner the bank's approach to sustainability (including its social and environmental efforts for the community). The chapter tries to analyze what it means to be a sustainable bank from an internal standpoint.

## 1.7 Chapter 7: Looking Back, Looking Forward

This chapter draws from the previous theoretical and empirical findings by providing an integrated framework for the comprehension of the sustainable banking phenomenon. Finally, the chapter offers suggestions and future research directions.

## 1.8 Methodology

This book has used a variety of methods to provide a wide overview of theoretical and practical perspectives on sustainable banking. These methods span from systematic literature review to case studies. The first three chapters are based on a theoretical analysis of sustainable banking. The book supplements this theoretical overview with practical case studies to provide readers with examples of sustainable banking activities.

Chapters 5 and 6 are based on up-to-date data and information retrieved from international databases (such as ORBIS) or from public-domain documents that can be freely accessed from banks' websites. Multiple case studies are presented in Chap. 5, while a single case study is analyzed in Chap. 6. Chapter 6 has been directly drawn up by Intesa Sanpaolo with the aim to describe—from the Bank's perspective—what they intend for sustainable banking.

## 1.9 Who Should Read This Book?

This book aims to provide business students, practitioners, and scholars with a broad analysis—both theoretical and practical—of what it means to be a sustainable bank. E&S pressures are the link with sustainability and the *leitmotiv* of the entire book that is organized into seven chapters, of which two are dedicated to practical case studies and analysis.

The innovativeness of this book concerns the idea of analyzing the concept of sustainable banking by using a twofold approach (both theoretical and practical), and is able to provide a comprehensive overview of sustainable banking literature and practices. The book features the following:

- Up-to-date academic literature and practitioners' points of view on the topic of sustainable banking,
- a broad outline on new sustainable banking models and strategies that incorporate E&S issues, and
- case studies focusing on the sustainable approach of banks, including deeper analyses of their disclosure activities.

This book is intended to reach an audience of both academics and practitioners. However, embracing this vision brings with it a set of challenges inherent in reaching out to such a broad audience. The importance of the topic makes this goal a necessity, even though the realms of academia and practice historically have been worlds apart. Drawing these two domains together has enormous potential for advancing the field of sustainable banking. Finally, the other potential readers of this book are business students interested in finance and banking.

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