CHAPTER 4

Emerging Practices in Sustainable Banking

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

Keywords Sustainable banking • Green bonds • Disclosure

4.1 Introduction

From the banks' perspective, the issues related to sustainable development have an important strategic and commercial dimension. In addition to risk management tools, traditional commercial banks have developed new products that both encourage improved environmental performance on the customers' side and provide environmental businesses with easier access to capital (Labatt and White 2011; Bouma et al. 2017). The threats and opportunities for banks that arise out of the sustainable development

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can be divided into several categories by a range of criteria: from risk reduction to profit generation and from purely business to ideological reasons (Jeucken 2010).

The banking sector intermediates financial flows by borrowing funds from individual depositors or a wide range of organizations and channeling these financial resources to individual and corporate borrowers, mainly in the form of business and commercial lending. Consequently, by developing or providing sustainable banking products, they play a triple role. First, they provide financial resources, and in some cases financial advice, to new sustainable projects or initiatives by promoting the diffusion of a form of "sustainable business thinking". Second, they may support non-governmental organizations (NGOs) and governments in the development of new sustainable policies. Third, they may improve their market share, reputation, and image by being perceived as sustainable and committed banks.

At the same time, being a sustainable bank involves not only providing products and services but also offering a different approach in terms of transparency and communication.

Nonfinancial disclosure—including sustainability and environmental disclosure—represents the main tools to communicate the banks' commitments toward sustainability.

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 risks and opportunities. The main reasons for sustainable banking products and services are synthetized in Sect. 4.2, while the main sustainable financial products/services are summarized in Sect. 4.3. Then, Sects. 4.4 and 4.5 recognize the role of sustainability disclosure and the main voluntary approaches that have been developed in recent years.

4.2 Sustainable Banking Products and Services: Reasons and Motivations

Environmental concerns in general, and issues regarding climate change in particular, are pushing banks toward the development of new products and investment strategies. From the banking perspective, sustainable development has a commercial dimension (Jeucken 2010). Financial capitals are considered as the most important ingredients in supporting a sustainable development (Weber and Feltmate 2016), and in recent years, sustainable investment practices have experienced an exceptional growth by representing the bridge between an unsustainable present and a sustainable future (Robins 2008). In this sense, banks play a key role in channeling funds to firms that seek financing to implement business projects, and consequently, the banks can monitor and push firms to operate in an eco-friendly or socially responsible way by imposing restrictions or requirements tailored to improve the environment or society (Chen et al. 2017). Pursuing innovative financial solutions and products generates direct profits in new markets with new clients. All these elements contribute to improving the bank's brand value (IFC 2007).

Figure 4.1 summarizes the main opportunities and risks that banks may face in the development (or in the nondevelopment) of products and services related to the issue of sustainable development.

As highlighted in Fig. 4.1, reputational considerations represent the most important trigger for the development of sustainable banking products. Benefits for banks in improving new sustainable banking products range from increased profitability and market value to a stronger reputation and improved image in the community.

4.3 The Commercial Dimension of Sustainability: Products and Services

Sustainable financial products and services are highly variable depending on the region, level of development, market and industry structure, and consumer/client preferences (UNEP FI 2016). The popularity and acceptance of these new sustainable financial products in the capital markets have also risen due to the investor demand for such investments, and these products are available to wholesale and retail investors (Anderson 2015). During the last years, banks have introduced particular products that meet the needs of their clients through the introduction of payment, savings, and investment products and by serving as financial intermediaries, thus creating products such as environmental loans and leases (Labatt and White 2003).

In addition, financial institutions have become involved in the securitization of projects that are in the early stages of development. Finally, banks have developed advisory products and services that assist companies with

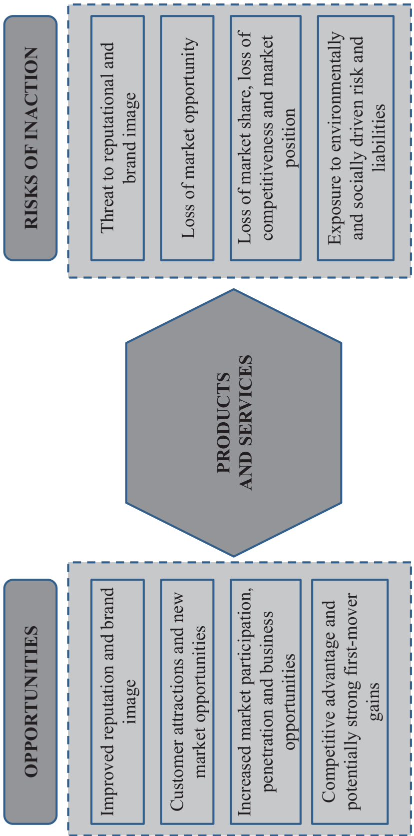

Fig. 4.1 Opportunities and risks of inactions in developing sustainable banking products and services (Source: Our elaboration)

Table 4.1 Examples of sustainable banking products

Business line	*Products*
Retail banking	Home mortgages
	Commercial building loan
	Home equity loan
	Affinity card
	Green credit cards
	Technology leasing
	Microcredit and microfinance
Corporate and investment banking	Project finance
	Partial credit guarantees
	Securitization
	Green, social, sustainable, and/or positive impact bonds
	Indices
	Private equity and venture capital
	Carbon finance and emissions trading
	Weather derivatives
	Debt-for-nature swaps
Asset management	Green fiscal funds
	Funds (e.g., carbon funds, clean energy targeted fund)
	Impact investing funds
Insurance	Environmental damage insurance.
	Bank guarantees environmental risks
Consultancy	SME environmental plan

Source: Our elaboration. SME: small- and medium-sized enterprise

their environmental risk management (Jeucken 2010). Examples of sustainable banking products are summarized in Table 4.1.

The following sections describe the most important sustainable banking products.

4.3.1 Home Mortgages, Commercial Building Loans, and Home Equity Loans

Green mortgages provide lower interest rates than market rates, and homes provided or upgraded with these mortgages are more energy efficient and have more energy efficient appliances. Similarly, banks can also choose to provide green mortgages by covering the cost of switching a house from conventional to green power and include this consumer benefit when marketing the product (UNEP FI 2007). The delivery of green mortgage products takes on different formats at different financial institutions (Labatt and White 2003). Home equity loans are designed and offered in order to motivate households to install residential renewable energy (power or thermal) technologies. In designing and offering these incentive-based products, a number of banks have also partnered with technology providers and environmental NGOs (UNEP FI 2007).

4.3.2 *Affinity Cards and Green Credit Cards*

Green and affinity credit cards are offered by most large credit card companies, which typically offer NGO donations equal to approximately half a percentage point on every purchase, balance transfer or cash advance made by the card owner. Donations are made to each of the partnered NGOs from income generated by the use of the credit cards (Labatt and White 2003). The commercial benefits for banks are visible in an enhanced image and better sales of other products, particularly to young people, and it is thus a form of "cause-related marketing" (Jeucken 2010).

4.3.3 *Microcredit and Microfinance*[1]

Microfinance has emerged as a tool to offer financial services to poor customers (La Torre and Vento 2008; Armendáriz and Morduch 2010; Armendáriz and Szafarz 2011; Hudon 2009). The European Union (EU) promotes microcredit as an important strategy to support small businesses and, at the same time, is also committed to protecting the environment (Forcella and Hudon 2016). Banks are increasingly interested in offering micro loans to individuals and small and medium-sized enterprises (SMEs), which are generally denied credit (public or private), in order to finance small environmental projects, such as small solar installations (UNEP FI 2007). Currently, Credit Suisse, Société Genérale, and Santander have entered this area.

4.3.4 *Leasing and Renting*

Banks are increasingly developing forms of environmental leasing in which they provide environmentally friendly technologies at preferential rates to commercial customers. In this sense, in 2015, Santander Group closed more than 300 finance transactions for upward of €35 million to fund numerous LED lighting, boiler exchange, waste treatment projects, and so on. It also has 1037 solar photovoltaic array lease finance arrangements totaling €245 million (Santander Sustainability Report 2017).

4.3.5 Green Bonds

Green bonds are innovative financial instruments in which the proceeds are invested exclusively (by specifying the use of the proceeds, direct project exposure, or securitization) in green projects that generate climate or other environmental benefits (such as renewable energy, energy efficiency, sustainable waste management, biodiversity, clean transportation, and clean water). In recent years, more countries joined the green bond market (such as France, Norway, Canada, and Poland), contributing to a total annual issuance of US$41.8 billion. Corporate green bonds accounted for 36% of the issuance—the highest share ever, followed by municipalities with 15% and by banks with 12% (EC 2016; OECD 2017). The first world's green bond—named the Climate Awareness Bond (CAB)—was launched in 2007 by the European Investment Bank[2] (EIB) (Galaz et al. 2015; Flaherty et al. 2017). As clarified in the Green Bond Principles (GBP),[3] four different types of green bonds currently exist in the market (ICMA 2017, p. 6):

- Standard Green Use of Proceeds Bond: a standard recourse-to-the-issuer debt obligation aligned with the GBP;
- Green Revenue Bond: a nonrecourse-to-the-issuer debt obligation aligned with the GBP in which the credit exposure in the bond is to the pledged cash flows of the revenue streams, fees, taxes, and so on, and whose use of proceeds goes to related or unrelated Green Project(s);
- Green Project Bond: a project bond for single or multiple Green Project(s) in which the investor has direct exposure to the risk of the project(s) with or without potential recourse to the issuer and that is aligned with the GBP;
- Green Securitized Bond: a bond collateralized by one or more specific Green Project(s), including, but not limited to, covered bonds, asset-backed securities (ABS), mortgage-backed securities (MBS), and other structures, and is aligned with the GBP. The first source of repayment is generally the cash flows of the assets.

The guidelines provided by the GBP helped the market to grow quickly. Traditional commercial banks are increasingly selling green bonds of their own while also bulking up their role as underwriters in helping other borrowers market their debt to investors. In 2013, Bank of America issued the first benchmark-sized corporate green bond—a $500 million offering—and also coauthored the GBP. During the last years, *Bank of America Merrill Lynch (BofAML)* issued a total of $2.1 billion in three separate offerings, including a $1 billion offering in November 2016, and in 2016, underwrote more than $25 billion in green bonds on behalf of 27 unique clients. According to Bloomberg New Energy Finance, BofAML was the top underwriter of green bonds in 2014, 2015, and 2016 and led offerings for clients, such as the Chinese automobile company Zhejiang Geely Holdings ($400 million), the New York Metropolitan Transportation

Table 4.2 Top financial issuers in 2016 ($ billions)

Bank	*Country*	*Total amount*
	Top financial issuers	
Shanagi Pudong Development Bank	China	7.59
Industrial Bank	China	7.41
Bank of Communications	China	4.36
Bank of China	China	3.68
Bank of Qingdao	China	1.19
Bank of America Merrill Lynch	USA	1.00
Jiangxi Bank	China	0.75
Berlin Hyp	Germany	0.56
Société Générale	France	0.56
ABN Amro	Netherlands	0.56
	Top green bond underwriters	
Bank of America Merrill Lynch	USA	$7825m
Crédit Agricole	France	$4624m
JPMorgan	USA	$4264m
SEB Bank	Sweden	$3763m
Bank of China	China	$3653m
Morgan Stanley	USA	$3628m
Deutsche Bank	German	$3128m
Guotai Junan Securities Co Ltd	China	$3104m
HSBC	UK	$2818m
China Construction Bank	China	$2474m
Citigroup	USA	$2473m
Huatai Securities Co Ltd	China	$2457m
Barclays	UK	$2084m
China International Capital Cor	China	$2047m
Haitong Securities Co Ltd	China	$1965m

Source: Bloomberg New Energy Finance (2016)

Authority, and the EIB (five bonds in 2016 totaling $3.6 billion) (BofAML 2017, p. 9). Table 4.2 shows the top financial issuers and underwriters of green bonds in 2016.

4.3.6 Green Bond Funds and Green Bond Indices

Another way for investing in green bonds is via green bond funds[4] (Anderson 2015), while green bond indices[5] identify specific bonds as green via a stated methodology and allow investors to invest in a portfolio of green bonds to diversify risks. To this extent, the green bond index providers also effectively act as institutions of certification. Currently, global green bond indices are provided by Bank of America Merrill Lynch, Barclays MSCI, Standard & Poor's, and Solactive (Anderson 2015; Ehlers and Packer 2017)

4.3.7 Securitization

Securitization is the process of transforming a pool of illiquid assets (e.g., mortgages) into tradable financial instruments (e.g., securities) (Shenker and Colletta 1990).[6] A recent deal from Crédit Agricole showed the potential for synthetic securitization to free up regulatory capital for green investments. According to the Organisation for Economic Co-operation and Development (OECD), in Europe, green ABS annual issuance could reach US$84 billion by 2035 (37% of green securities) (OECD 2016). Globally, the annual issuance of green ABS for renewable energy, energy efficiency, and low-emission vehicles (LEVs) could reach between US$280 and US$380 billion by 2035 (OECD 2016).

4.3.8 Debt-for-Nature Swaps

Debt-for-nature swaps are financial transactions in which a portion of a government's or private sector entity's foreign debt is forgiven in exchange for local investments in environmental conservation measures (Dalal et al. 2015). Despite the fact that the swaps were attractive, they did not provide a profit for the investor, but they provided an avenue for banks to remove high-risk claims from their books and to promote the protection of forest ecosystems (Dalal et al. 2015). The idea behind this particular kind of financial instrument is that the loan, listed far below its nominal value, is entirely written off, or can be bought back by the debtor for far less than its nominal value, with the stipulation that the debtor spends the relief in his or her own country in an environmentally friendly way (Jeucken 2010). Debt-for-nature swaps are considered as the starting point for the development of a number of new approaches for long-term financing for conservation (Resor 1997). In the last years, many commercial banks (e.g., JP Morgan, Citibank, Bank of Tokyo, and Deutsche Bank) have been involved in such swaps (Jeucken 2010).

4.3.9 Green Fiscal Funds

Green fiscal funds had been launched by the Dutch government in 1992–1993 in collaboration with the banking sector (in particular ASN Bank and Triodos Bank) and differ from sustainable investment funds due to the attractive fiscal advantages they offer the investors and the green nature of the project (whereas sustainable investment funds focus solely on companies) (Jeucken 2010).

4.3.10 Impact Investment Funds

Impact investment funds are established with a specific mission and aim that are pursued through an investment strategy (Chiappini 2017). For the investor, the structure of an impact fund is often similar to a traditional private equity fund (Stagars 2015). In 2017, Barclays announced the launch of its multi-impact growth fund, offering retail and institutional investors the opportunity to generate long-term capital growth while the bank emphasizes making a positive contribution to society. The multi-impact growth fund invests primarily in specialist third-party funds that have been identified by Barclays' fund and a manager selection team. These funds have been selected as best-in-class based on both their potential for strong financial returns and the consideration of their impact around key social and environmental issues.[7]

4.4 Transparency and Communication in Sustainable Banking: Nonfinancial Disclosure

Nonfinancial disclosure has been steadily increasing in both size and complexity over the last years. In the academic literature, a variety of terms have been coined in order to define such organizational accounting and disclosure practices that fall beyond the financial domain: "social and environmental", "corporate social responsibility" (CSR), "sustainability", "ethical", and "triple bottom line" (Skouloudis et al. 2014). The investor community is showing a growing interest in such information for a more precise valuation of the firm (Berthelot et al. 2012; Sullivan and Gouldson 2012), and, at the same time, the phenomenon of corporate social and environmental disclosure has attracted research attention (Gray et al. 2001). CSR or sustainability disclosure can be defined as the set of information that a company discloses about "its environmental impact and its relationship with its stakeholders by means of relevant communication channels" (Campbell 2004; Gray et al. 2001; Gamerschlag et al. 2011). In contrast to financial reporting, corporate environmental disclosure is industry specific, voluntary, and discretionary, and this kind of information is of interest to many stakeholders (e.g., regulators, governments, and community groups) (Aerts et al. 2006; Barbu et al. 2014; D'amico et al. 2016). Many theoretical attempts have been made to explain how and why companies voluntarily disclose CSR information (Dowling and Pfeffer 1975; Gray et al. 1995b; Gamerschlag et al. 2011). In this sense, Aerts et al. (2006) highlight that according to institutional theory, firms respond to contextual pressures by following a general accepted way of doing business to appear legitimate to investors and stakeholders. Jain et al. (2015) classify the incentives for voluntary disclosure into two main categories: those that are based on economic drivers and those based on strategic motives. In particular, Cormier and Magnan (2003) highlight that an environmental reporting strategy is determined by (1) benefits from a reduction in information asymmetry and in the overall information gathering costs to be assumed by investors (information costs), (2) costs resulting from the disclosure of proprietary information, and (3) environmental media visibility (p. 47). Cormier and Magnan (2007) investigate the impact of environmental reporting on the relationship between a firm's earnings and its stock market value, and their results show that the interaction between environmental reporting, financial statement information, and firm stock market value is conditioned by the reporting context of firms.[8] The academic literature typically emphasizes the association between corporate environmental performance and corporate environmental reporting by using sociopolitical and economics-based theories of disclosure to explain variation in disclosures (Hahn and Kühnen 2013; Hahn et al. 2015; Braam et al. 2016). Sociopolitical theories of disclosure, including legitimacy theory, explain that corporate reporting issues cannot be investigated if considerations about the political, social, and institutional framework in which accounting activities occur and the conflicting interests of societal groups are disregarded (Gray et al. 1995a; Braam et al. 2016).

To date, only few studies explore the sustainability disclosure status in the banking sector (Khan et al. 2009; Khan 2010; Carnevale and Mazzuca 2014; Nobanee and Ellili 2016).

4.5 The Relationship Between Environmental Disclosure, Environmental Performance, and Firm Performance

After the financial crisis, banks have changed their approach to CSR and especially to CSR disclosure, being more aware of the potential reputational risks and brand image damage related to these issues (Scholtens 2006; Thompson and Cowton 2004; Carnevale and Mazzuca 2014). Sustainability reporting can positively affect the stakeholders' perceptions of firm performance, value, risk, profitability, share price and cost of capital (Gray et al. 1995b; Scholtens 2008; Cormier et al. 2011; Jizi et al. 2014). Miles and Covin (2000) examine the relationship between environmental performance, reputation and financial performance by concluding that being a good environmental steward provides firms with a reputational advantage that leads to enhanced financial performance. Similarly, Konar and Cohen (2001) highlight that poor environmental performance has significant negative effects on reputation. By analyzing the interrelations between environmental disclosure, environmental performance, and economic performance, Al-Tuwaijri et al. (2004) highlight a positive relationship and that "good" environmental performance is significantly associated with "good" economic performance. The quality and quantity of sustainability and thus voluntary disclosure in the banking sector is highly variable and is strictly influenced by a series of aspects. As clarified by the European Commission (EC 2017), appropriate nonfinancial disclosure is an essential element to enable sustainable finance. In suggesting what may be considered as Key Performance Indicators (KPIs), the recent guidelines on nonfinancial reporting from the EC (2017/C 215/01)[9] state: "*A bank may consider that its own water consumption in offices and branches is not a material issue to be included in its management report. In contrast, the bank may assess that the social and environmental impacts of projects that it funds and its role in supporting the real economy of a city, a region or a country are* *material information*" (EC 2017, p. 6).[10] Figure 4.2 summarizes the main risks and opportunities that may arise from the decision to disclose or not to disclose nonfinancial information.

4.6 Voluntary Code of Conducts

Since the 2000s, the higher public awareness of global warming has pushed financial institutions to take up efforts to combat climate change and social transformations, and be socially responsible by adopting voluntary codes of conduct. A code of conduct, also referred to as a "codes of ethics" or "codes of business standards", is designed to explicitly detail an organization's commitment to CSR. In particular, codes of conduct are a practical CSR instrument commonly used to govern employee behavior and establish a socially responsible organizational culture (Erwin 2011). Despite their voluntary and informal nature, firms may still interpret them as a set of obligations that need to be met in order to respond to public expectations and prevent damages to corporate reputation (Wright and Rwabizambuga 2006). Previous works that have analyzed the effectiveness of these codes have been widely discussed and empirically tested (Erwin 2011). Further, adopting codes of conduct may lead to reputational benefits by functioning as a symbol of CSR awareness and engagement, thereby preserving and legitimating the public image (Matten 2003). Numerous studies have investigated the content of codes (Jenkins 2001; Gaumnitz and Lere 2004) by showing that these reports are primarily descriptive. As stated by Richardson (2005), codes of conduct are innovative and important instruments for the promotion of fundamental human, labor and environmental rights, and anticorruption practices, especially in countries where public authorities fail to enforce minimum standards, but it should be underlined that they are complementary to national and international legislation and are not a substitute for them.

Major providers of sustainability reporting guidance and voluntary code of conducts also include: Global Reporting Initiative (GRI's Sustainability Reporting Standards), the OECD (OECD Guidelines for Multinational Enterprises), the United Nations (UN) Global Compact, and the International Organization for Standardization (ISO 26000, International Standard for social responsibility). A series of works has been carried out with a view to analyze the reasons for their great acceptance, both in academic literature (see among others: Richardson 2005;

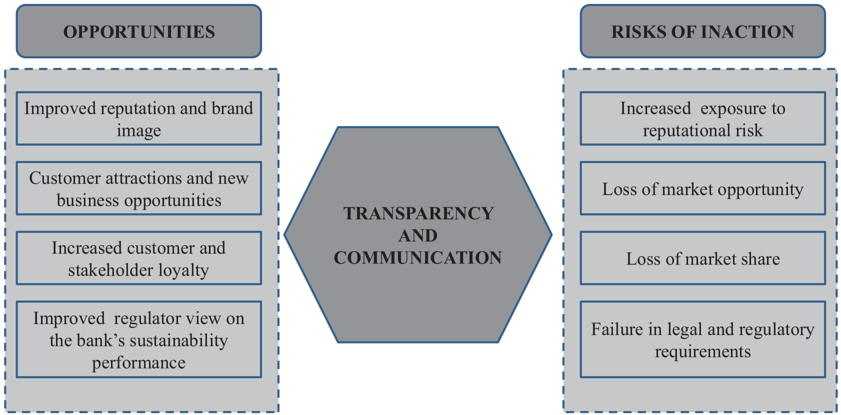

Fig. 4.2 Opportunities and risks of inaction related to disclosure (Source: Our elaboration)

Van der Laan 2009; Arevalo et al. 2013; Moratis and Brandt 2017) and in practitioner literature (McKinsey and Company 2007). In particular, some of these works have tried to analyze the reasons that have led firms to adopt this initiative (Bennie et al. 2007; Janney et al. 2009; Simone Byrd 2009) by concluding that the main reasons are to improve corporate reputation and image (Runhaar and Lafferty 2009). However, no clear consensus regarding the driving forces behind their adoption can be retrieved (Garayar et al. 2016).

4.6.1 Equator Principles

The equator principles (EPs) are a voluntary code of conduct and a risk management framework, adopted by equator principle financial institutions (EPFIs) for determining, assessing and managing environmental and the social risk associated with project finance initiatives (Chen et al. 2017).

The EPs have grown rapidly in terms of membership, geographic scope, and the requirements they impose on EPFIs and are now considered a "project finance industry standard" (Meyerstein, in Karen). Currently, 91 EPFIs in 37 countries have adopted the EPs.

The EPs apply to four financial products:

1. Project finance advisory services, where the total project capital costs are US$10 million or more
2. Project finance with total project capital costs of US$10 million or more
3. Project-related corporate loans (including export finance in the form of Buyer Credit) in which all four of the following criteria are met:
   (i) The majority of the loan is related to a single project, over which the client has effective operational control (either direct or indirect).
   (ii) The total aggregate loan amount is at least US$100 million.
   (iii) The EPFI's individual commitment (before syndication or sell down) is at least US$50 million.
   (iv) The loan tenor is at least two years.
4. Bridge loans with a tenor of less than two years that are intended to be refinanced by project finance or a project-related corporate loan that is anticipated to meet the relevant criteria described above (EP 2013, p. 3).

The ten EPs span all phases of the project finance lending cycle and aim to fill the gaps between the national regulations and the International Finance Corporation's performance standards (Meyerstein 2015).

4.6.2 The Global Reporting Initiatives

The GRI is the most widely adopted sustainability reporting framework around the globe (KPMG 2017). The GRI network—in partnership with UN Environment Programme (UNEP)—includes the active participation of companies, entrepreneurs' associations, NGOs, workers' associations, government representatives, consulting firms, rating agencies, associations of chartered accountants, and auditing firms. The sustainability reporting guidelines are a framework for reporting on economic, environmental, and social performance that (1) outlines reporting principles and content to help prepare sustainability reports; (2) helps companies to gain a balanced picture of their economic, environmental, and social performance; (3) promotes comparability of sustainability reports; and (4) supports the assessment and benchmarking of sustainability performance (Adams and McNicholas 2007; Golob and Bartlett 2007; Khan et al. 2011). As a framework, the GRI considers that sustainability reporting can be "parallel" to financial reporting (compulsory in nature) by suggesting that the two reports together can enrich each other. The framework is built around the concept of the triple bottom line (Norman and MacDonald 2004; Finch 2015) and has a modular approach. In particular, the three universal standards (GRI 101, GRI 102, and GRI 103) are used by every organization that prepares a sustainability report, while topic-specific standards are used by organizations to report on material topics (economic, environmental, or social). The GRI Financial Services Sector Disclosures (GRI FSSD) document contains a set of disclosures for use by all organizations in the financial services sector. The disclosures cover key aspects of sustainability performance that are meaningful and relevant to the financial services sector and are not sufficiently covered in the G4 Guidelines. This sector supplement was issued in 2008 and developed based on the G3 Guidelines (2006). Following the launch of the G4 Guidelines in May 2013, the complete Sector Supplement content is now presented in the "Financial Services Sector Disclosures" document, in a new format, to facilitate its use in combination with the G4 Guidelines. It includes the original GRI Guidelines, which set out the reporting principles, disclosures on management approach and performance indicators for economic, environmental, and social issues, and which supplement additional commentaries and performance indicators developed especially for the sector and capture the issues that matter most for companies in the financial services sector (GRI, G4 Sector Disclosure—Financial Sector 2017). The level of compliance with the GRI recommendations is calculated according to whether the report addresses all the indicators or explains why any are omitted. Moreover, in order to achieve higher scores, companies can apply additional indicators that may improve their rating. Reports are rated C, C+, B, B+, A, or A+, with A+ being the highest rating given for businesses that fulfill all the GRI recommendations (Fuente et al. 2017).

4.6.3 The International Standard for Social Responsibility: ISO 26000

ISO is an independent, nongovernmental international organization with a membership of 162 national standards bodies. The standard was launched in 2010, following five years of negotiations between many different stakeholders across the world. ISO 26000 provides guidance on how businesses and organizations can operate in an ethical and transparent way that contributes to sustainable development while taking into account the expectations of stakeholders, applicable laws, and international norms of behavior (ISO 2016). The International Standard ISO 26000 provides harmonized, globally relevant guidance for private and public sector organizations of all types and encourages the implementation of worldwide best practices in social responsibility. ISO 26000 is a guidance standard that can be used by organizations on a voluntary basis (Sully 2012) and focuses on seven core subjects: *governance*, *human rights*, *labor*, *environment*, *business practices*, *consumers*, and *community* (Herciu 2016). In particular, ISO 26000 covers a wide range of sustainability issues and is not suitable for certification purposes which makes this standard different from other well-known standards (e.g., ISO 14001 or SA8000) (Hahn 2013). The standard outlines content and approaches to social responsibility and underlines that “social responsibility should be an integral part of core organizational strategy” (ISO 2010, p. 7).

4.6.4 The UN Global Compact

In 2000, the UN launched the UN Global Compact as a call to companies to align their operations and strategies with ten universally accepted principles in the areas of human rights, labor, environment, and anticorruption (UN 2017). The UN Global Compact is a strategic policy initiative that encourages businesses to support ten universal principles in the areas of human rights, labor standards, the environment, and anticorruption (Rasche and Kell 2010). The principles are derived from the Universal Declaration of Human Rights, the International Labour Organization's Declaration on Fundamental Principles and Rights at Work, UN Convention Against Corruption, and the Rio Declaration on Environment and Development (UN 2017). Unlike other multistakeholder schemes aimed at certification or reporting (GRI), the UN Global Compact is a principle-based initiative asking participants to align their operations and value chain activities with ten universally accepted principles (Rasche and Kell 2010). As of November 2017, 9.727 companies from 162 countries adopted the principles into their business practices and are taking actions to advance UN goals. In September 2015, all 193 member states of the UN adopted a plan for achieving a better future for all, over the next 15 years. At the heart of "Agenda 2030" are the 17 sustainable development goals (SDGs). The UN Global Compact's ten principles are the foundation for any company seeking to advance the SDGs (UN 2017).[11]

4.7 Conclusion

This chapter highlighted the main directions banks are moving toward in order to be sustainable. The first section summarized the opportunities and risks of inaction related to sustainable products and services. Reputational concerns are the most important trigger for the improvement of new products and services, followed by the opportunities to enter into new markets or to increase the market share by acquiring new customers. New banking products have emerged in recent time and span over all the banking branches and activities. Some products are emerging in the market for environmental or sustainable products, such as the impact investing funds, while others are being consolidated, such as affinity cards or green bonds. In particular, the latter represents one of the most important products for banks, which is confirmed by the increased attention and by the increased number of issuers and underwriters among banks all over the world. Additionally, sustainable services are emerging. Banks are starting to provide their consulting services to private business, as in the case of advisory services in green projects and initiatives. Then, the chapter moved toward the role of disclosure. Nonfinancial disclosure, including sustainability or environmental disclosure, is increasingly important for banks. This could be due to the bad image assigned by society to banks in the aftermath of the crisis. In recent years, many works tried to explore the role of nonfinancial disclosure from a firm perspective. However, it is not possible to identify univocal results. Undoubtedly, there is a strong relationship between a good reputation and a good disclosure. Moreover, the disclosed documents are often based on voluntary frameworks and initiatives. Banks are engaged in many programs and are trying to move their communication in order to communicate the sense of their sustainability and of their sustainability approach.

Notes

1. For an overview of microcredit, microfinance, and microcredit guarantee funds, see, among others, Leone and Porretta (2014) and, La Torre and Vento (2008). For information on green microfinance, see: (Forcella 2013), Allet (2014), and Allet and Hudon (2015).
2. At the end of 2016, EIB was the world's largest issuer of Green Bonds with €15 billion raised.
3. The Green Bond Principles (GBP) have been updated in June 2017 and are voluntary process guidelines that recommend transparency and disclosure and promote integrity in the development of the Green Bond market, by clarifying the approach for issuance of a Green Bond.
4. On the topic of green bond funds' performance, see, among others, Scholtens (2011), Chang et al. (2012), and Adamo et al. (2014).
5. Indices are a primary investment tool for investment managers and investment owners, as they provide a benchmark or point of reference for the active investment decisions (Inderst et al. 2012).
6. About securitization, see Greenbaum and Thakor (1987), Ashcraft and Schuermann (2008), Maddaloni and Peydró (2011), and Mazzuca (2015).
7. For further details about impact investing, see Vecchi et al. (2015), Rizzello et al. (2016), Weber (2016), and Vecchi et al. (2017), while for more details on impact investment funds, see Stagars (2015) and Chiappini (2017).
8. Many academic works tried to explore the relationship between corporate environmental performance and firm performance. In this vein, Hassel

et al. (2005) show that environmental performance has a negative effect on the market value of a Swedish sample of firms. Murray et al. (2006), however, analyzed the value relevance of social and environmental reporting in UK companies, with no conclusive results. Different results are often attributed to the broad range or research methods and to the lack of common environmental performance measures (Konar and Cohen 2001; Al-Tuwaijri et al. 2004). Despite the growing number of works, mixed results have been found and the debate about the relationship between environmental performance and firm performance is still unresolved (Elsayed and Paton 2005; Lee et al. 2016; Nor et al. 2016).

9. The Directive 2014/95/EU of the European Parliament and of the Council (on disclosure of nonfinancial and diversity information by certain large undertakings and groups ("the Directive")) entered into force on 6 December 2014 and amends Directive 2013/34/EU (on the annual financial statements, consolidated statements and related reports of certain types of undertakings). Companies concerned will start applying the directive as of 2018, on information relating to the 2017 financial year. The disclosure requirements for nonfinancial information apply to certain large companies with more than 500 employees, as the cost of obliging SMEs to apply them could outweigh the benefits. Companies are required to disclose relevant, useful information that is necessary to understand their development, performance, position and the impact of their activity, rather than an exhaustive, detailed report. The directive also gives companies significant flexibility to disclose relevant information in the way that they consider most useful, including in a separate report. Companies may rely on international, EU-based, or national frameworks.
10. The EC decided on 28 October 2016 to establish a High Level Expert Group on sustainable finance. This builds on the Commission's goal to develop an overarching and comprehensive EU strategy on sustainable finance as part of the Capital Markets Union.
11. The Global Compact asks companies to embrace, support, and enact, within their sphere of influence, a set of core values in the areas of human rights, labor standards, the environment, and anticorruption. The principles are organized around four main areas: human rights (principles 1 and 2), labor standards (principles 3–6), environment (principles 7–9), and anticorruption (principle 10). The principles are as follows: Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; Principle 2: Make sure that they are not complicit in human rights abuses; Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining; Principle 4: The elimination of all forms of forced and compulsory labor; Principle 5: The effective abolition of child labor;

Principle 6: The elimination of discrimination in respect to employment and occupation; Principle 7: Businesses should support a precautionary approach to environmental challenges; Principle 8: Undertake initiatives to promote greater environmental responsibility; Principle 9: encourage the development and diffusion of environmentally friendly technologies; Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

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