

# WHAT SHOULD BE THE SOCIAL RESPONSIBILITY OF BANKS?

By Jacques Zeegers (Belgian Bankers Association)

It would be difficult to have an accurate image of the social responsibility of banks without reference to the framework in which they operate, that is the framework of a social market economy. Banks are, above all, businesses whose purpose is essentially economic. Their purpose is to offer to customers, public authorities, private persons or businesses a range of financial services which ought to enable them to achieve their own objectives. The social added value of these services is not inconsiderable and is certainly much more important, generally speaking, than the 'social' functions that we would like, rightfully or not, to be undertaken by banks.

The existence of an efficient, reliable and rapid system of payment, which offers all the necessary security guarantees, represents a considerable asset for the economy, and in the future this will certainly be the case in the information society, the development of which will depend heavily on a high performance payments system on the Internet.

In their role as financial intermediaries, banks contribute to the financing of a huge number of varied projects, most of which have considerable social and economic value. In short, without a high-performance banking system many socially beneficial initiatives would not even exist.

## **The first duty of a public-spirited business (*entreprise citoyenne*)**

The first duty of a business which likes to think of itself as public-spirited, is to conduct its main business in a proper manner, which consists in offering its customers products and services with the best possible quality-price ratio. The Banks are no exception to this rule. Indeed, according to a survey recently conducted by CRIOC (the main Belgian Consumers' Research Association), this is what the public expects first and foremost from a credit institution. Experience has clearly shown that competition is the best way to achieve this. And competition in the banking sector has been increasing enormously in recent years in the wake of technological advances, globalisation and the creation of the euro.

Furthermore, the banks have a particular responsibility towards their depositors, who entrust them with their funds. Banks must be able to meet their commitments at any time. This is important not only for the depositors, but also for the economy as a whole : history has shown that a massive withdrawal of funds, following a public loss of confidence in the banking system, can be the origin of serious economic problems.

Therefore, the banks ought to exercise particular care in the use of funds deposited with them. The credit policy of banks must be compliant with rigorous and objective criteria. In this respect the margin for error is very narrow. A single percent of additional loss on their credit portfolio can cancel out their total profit. They must also have sufficient capital available in order to be able to absorb crises and to protect their depositors' money in the event of serious loss. And in order to have sufficient capital adequacy, they must offer their shareholders an adequate profit, for otherwise, the latter will place their money elsewhere.

The economic as well as social importance of an effective system of protection for investors justifies the case for a tight control of banking activity by the public authorities.

To maintain that the primary responsibility of banks is to conduct their business in a proper manner is not just idle talk. French, American, Japanese and Scandinavian taxpayers are well aware of the costs of mistakes made by badly managed banks : think of the socially beneficial work that could have been achieved with the hundreds of millions of dollars thus squandered. And the consequences of the absence of standards or rigorous controls in the financial sector are only too evident in South-East Asia.

Nor can the role of the banks in the field of employment be ignored. The banking sector provides high added value jobs for about 80,000 people in Belgium. It has to be said that, as a result of increased competition in the sector, technological advances and mergers, the number of jobs has stopped growing in recent years, and it could even decrease slightly in the future. But if account is taken of the number of jobs created

indirectly by the sector through sub-contracting, the balance sheet still looks very positive.

### Banks also have a “societal” responsibility

To maintain that the social value of the economic activity of banks is by far the most important of course does not mean that they do not also have a societal responsibility.

In its recent annual reports, the Belgian Bankers' Association stressed the idea of banks having a sense of civil responsibility. First of all this implies that the banks conduct their business in a proper manner, as mentioned above, but it also implies that in the course of their economic activity, banks show a concern for the environment in which they operate. Often their own interest is at stake. This is particularly the case in relation to overindebtedness. It is not in the interests of any bank to put its customers in the position of being unable to repay their debts. Therefore, they pay particular attention to this phenomenon. But of course it is necessary, when approaching this problem, to see to it that a fair balance exists between the interests involved. Measures taken to deal with overindebtedness must not have the effect of raising credit rates or imposing selection norms such that many citizens with a legitimate right to credit find themselves excluded completely. Another example concerns the protection of the environment : it is not in the interests of any bank to lend money to a polluting industry which may run the risk of failure as a result of damages and interest payments for which it would be liable.

① Social exclusion is another area where the social responsibility of banks comes into play. In today's society, having a bank account has become indispensable in terms of getting one's income or making payments for the basic necessities of life. Without one, normal life is impossible. This is why in 1998, following a request from the Minister for Economic Affairs, M. di Rupo, the Belgian Bankers' Association drew up a “charter for basic bank services” signed by 25 banks which undertook to offer unconditionally to every citizen the opportunity of opening a bank account consisting of at least three services : withdrawals, transfers and bank statements. Of course? credit facilities are not included in this basic service. The bank must in fact always be able to estimate the repayment capacity of each borrower. The “right to credit facilities” would only lead to worsening the debt burden problem of overindebtedness.

### There is no such thing as free banking

There are those who think that the idea of a basic service should extend to requiring the banks to dispense with bank charges. Although the idea of providing a public service exists in a number of sectors such as the post office, electricity or public transport, it is very rarely coupled with free provision of that service. That a service should be available to everybody is one thing. That it should be free is quite another. There is no objective reason for requiring banks to provide free banking. Besides, it has to be noted that there are no free services. Every service has a cost. Therefore, the question is not whether the service should be free but, who should pay it. There is nothing to prevent a democratically elected government from deciding to offer certain citizens free access to certain services. But in a market economy, the cost has to be borne by the collective whole with all the necessary transparency in order to avoid creating competitive distortions. In the European context, it would not be acceptable that Belgian banks have to bear certain charges, whilst their competitors in other countries would be exempt.

Another area in which the social responsibility of banks can have a bearing is that of relationships with customers. These relationships should be proper and based on mutual trust and transparency, and should take precedence over concerns for short term profit. This is why the Belgian Bankers' Association has drawn up a code of conduct designed to govern relationships between the banks and private customers.

Equally important in the social role of banks are their obligations in fiscal matters. As with all businesses, they have a duty to pay their taxes in accordance with the current rules and with the principles of a constitutional State. They must also avoid becoming involved in possible fraud committed by their customers. But that does not mean they must adopt the role of policeman in the matter, because that would lead to a breakdown in the relationship of trust that ought to exist between a banker and his customer. In recent years, the legislature has rightly concerned itself with the protection of privacy. Of course, this also applies to bank customers for whom the banker has a duty to act discreetly. The rules relating to “bank secrecy” aim at ensuring of a proper balance between the demands for the protection of privacy and the fair perception of tax. In no way does bank secrecy aim at protecting the bank. Furthermore, there has never been any bank secrecy with regard to taxes due by the banks themselves.

The Banking and Finance Commission keeps a scrupulous watch to ensure that banks do not engage in practices which might encourage tax fraud. At the end of 1997, it published two circulars on 'particular mechanisms' and on the prevention of tax fraud, which have been closely examined by the Belgian Bankers' Association. The Belgian Bankers' Association set out guidelines aimed at avoiding any unhealthy competition between banks in the fiscal domain and at keeping in mind the spirit rather than the letter of the recommendations of the Banking and Finance Commission.

### Should banks promote specific societal options ?

The preceding considerations show that the social role of the bankers as well as their ethics lie at the heart of their activity. The latter rests entirely on the notion of trust – that of the depositors in the banker to whom they entrust their money, and that of bankers in the people to whom they grant credit. And no trust can exist without a basic morality amongst all the parties involved.

However some people would like to go a step further. They wonder whether bankers should not to use the (limited) means at their disposal to promote specific choices of society. An "ethical" bank is defined as one which favours the financing of activities which have a certain "social" interest or which refuses to finance activities considered harmful such as the production or the sale of arms, or which refuses to collaborate with businesses known to exploit child labour in the third world. There are also "ethical" products, for banks with a more general purpose, which wish to offer their customers the opportunity to spend their savings on certain types of investment.

As it happens it seems to me that the term "ethical" is badly chosen, because it would imply that banks which do not adopt this approach, which is their right, are not concerned about professional ethics. One could say that there are banks with a social purpose as opposed to banks with an economic purpose, but this is also an unfortunate expression in so far as it would mean that economic purposes are opposed to social purposes, which is clearly not the case.

Anyhow, it is perfectly legitimate to give citizens who wish so, the opportunity to deal with financial institutions which, along with their economic purpose, claim to have a social purpose even if this means rewarding their investors with a slightly

lower rate or giving their shareholders a smaller dividend. There is nothing wrong with men and women using the freedom they have gained thanks to their savings, for investing in projects which promote an improvement in the quality of life in our society (or at least which prevent it from deteriorating).

### Politicians, not bankers, should define the general interest

Such initiatives certainly deserve encouragement, but nevertheless, one must also be aware of their limitations.

The major part of monetary flows concern "ordinary" economic activity, the social value of which cannot be denied, especially in terms of jobs and income. "Ordinary" banks will therefore always be necessary and will continue to dominate the market.

As stated above, ethics is inherent in the banker's trade. Although the principles which underpin the ethics are often quite clear, their application requires reflection and judgement in each individual case. Over-simplistic criteria detailed in a commercial statement do not necessarily meet the needs of all situations. Take, for example, the sale of arms. Everyone is against violence and there are some who think that a total ban on the sale of arms would by its very nature limit their use. This is a perfectly respectable opinion, yet probably unrealistic in so far as each individual must be able to defend himself against unfair aggression. Arms trading is not reprehensible in itself, but it is clear that it must be strictly controlled. And it is also clear that this task should not fall to the banker but to the democratically elected powers, in other words the government or the legislature. It is their job to define the general interest and to see that it is respected. Although the banker must always ensure that his actions are in accordance with the ethical codes of his profession, one cannot respect him to play the role of arbiter for the choices of society, which are often controversial. When granting credit, for example, the banker must respect both the spirit and the letter of the law, he must obey his conscience and of course, he must also ensure that the credit risk is not unreasonable, but it is not incumbent upon him to interfere in the private affairs of his customers.