

EUROPEAN BANKS' ENVIRONMENTAL AND SOCIAL POLICIES AND BUSINESS PRACTICES SURVEY NATIONAL PROVIDENT INSTITUTION – THE GIUSEPPI REPORT (May 1999) GLOBAL CARE

Acknowledgements

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INTRODUCTION

This section examines the environmental and social performance and practises of European banks. The information is largely drawn from respondents to a survey investigating a range of environmental and social issues including environmental and sustainable banking, third world debt and human rights, community involvement and business practices.

Banks performance on issue were assessed to produce a league table of best and progressive practices amongst the banks surveyed. The chapter ends with an outline of a model bank of best practices.

METHODOLOGY

A questionnaire was the primary source of information for this survey. The banks were also encouraged to supply any written information, which they felt would give a further insight into their operations and practices. Site visits, meetings and telephone interviews were also conducted, when possible. A variety of additional sources were also used (such as press articles, publications, NGOs, previous and external research sources) and are credited accordingly.

Over 70 banks were included in the original survey list, several of which were involved in mergers. The response rate was over 50%. A summary of the respondent's reply was sent to the relevant bank, and they were asked to comment on the profile prior to publication of the report.

Internet research was useful in judging which banks consider it important to use this form of media to publicise their services and activities to the public, their customers, staff and competitors.

Questionnaire – Scope and Limitations

The method of using questionnaires surveys has limitations and they are currently over-employed for surveys. However, they are useful as a tool to focus the attention of those being surveyed, when

followed by subsequent telephone or e-mail contact, as was used in this case.

No domestic workplace questions were included in the questionnaire as it was assumed that European banks adhere to the guidelines of the Social Charter, which covers equal opportunities and workplace practices. Banks also tend to be leaders in the area of workplace practices.

OVERVIEW

ENVIRONMENT

Sustainable Banking

The definition of this term, for the purpose of this project, would be the decision by banks not to make loans to businesses that operate without any consideration of their ecological and social impact. The standards that were used to judge this criterion were whether the banks had environmental screens included in their lending policies and whether they conduct environmental checks of their customers' businesses. Such practices are described in this chapter as «responsible lending».

A significant proportion of the bank respondents are signatories to the United Nations Environment Programme's «Statement by Financial Institutions on the Environment & Sustainable Development» (UNEP Statement). This statement commits signatories to support sustainable development and environmental protection, and to effectively communicate their policies in these areas. Unfortunately, the best practice guidelines in the UNEP statement is lacking application in the banking sector. However, the statement does draw benchmarks of expectations. DG Bank realistically stated that as a signatory, the Bank 'demonstrates the awareness of the existing problems'. Only HypoVereinsBank stated categorically that 'loans strictly follow the UNEP guidelines'.

Although banks themselves are not the worst offenders in terms of direct environmental pollution, they have significant indirect impacts

due to where and to whom they loan money. «Public opinion does not see business efficiency as the only value on which a bank can be judged. Social and increasingly environmental responsibilities are given an equal level of importance. Such obligations include the challenge of incorporating and applying environmental criteria to loan policies and company evaluations».

For example, according to Swiss law «the risk for banks to become directly liable for environmental damages caused by their borrowers is relatively low. However, such risk does exist where a bank exerts influence on the decision-making process of a polluting company and thereby actively influences a specific decision which leads to an impairment of the environment or when acting in advisory capacity and due diligence procedures are not met.»²

However, such laws in Switzerland are not applicable to their banks' operations beyond their national border. For example, the role of UBS in the Ilisu Dam project, Turkey: "Funding a project (Ilisu) which violates World Bank standards on 18 accounts would send a strong signal to the public that the mega-merger with SBC has resulted in a significant weakening of the environmental policies of UBS."¹ A Sulzer/ABB publication on Ilisu says: "As UBS was the leading Bank in the financing of previous projects it was awarded the task of structuring and arranging the financing for Ilisu."¹ UBS indeed has a long history of financing GAP² projects, prior to the merger, some of which go against the policies of their own Environmental report. UBS was one of the first banks to sign the UNEP Statement. In defence of UBS's role, the environmental manager stated that it was UBS that brought the Ilisu project into the realm of the public, and invited representatives from WWF and Berne Declaration to discuss the issues raised. Friends of the Earth have stated that they believe that construction of the Ilisu Dam will cause major environmental damage, further increase tensions in this Kurdish region and will probably lead to war in the region due to the disruption of water supplies from the Tigris. As Turkey is a NATO member, many other countries would be drawn into a conflict if Turkey was attacked by Syria or Iraq, which is considered likely by the UK Defence Forum in case of a disruption to the water supply. If the companies involved in the Ilisu dam project are not deterred by the prospect of being instrumental in causing military conflict, perhaps they would be concerned by the possibility of future liability claims by local stakeholders.

It is a similar case of double standards for the giant Dutch Bank ABN. Unfortunately, ABN chose not

to complete the questionnaire, but instead sent its annual and environmental reports, which make no mention of the environmental damage or human rights abuses that occur due to mining activities financed through previous ABN loans. During subsequent dialogue, the Investment Relations manager stated that, in accordance with the Bank's current standards, the funding of such operations would probably be declined by ABN Amro on environmental grounds. This would indicate that the Bank is now taking steps to incorporate its environmental policy into its business practices. The environmental report states that «the Environmental policy of ABN is designed to ensure that environmental aspects are fully integrated within 15 years as a key factor in all company decisions, in such a way that ABN makes a worthwhile contribution to a sustainable society».

In the UK, no loans have yet been declined on environmental grounds by LloydsTSB. Lloyds TSB believes in dialogue with customers to improve environmental performance rather than refusing banking services. The majority of banks refuse to accept the responsibility of their clients' actions, claiming that they are not the environmental regulators or enforcers and that their financial services are merely products. This means that banks are not measuring their customers' environmental performance, and until this happens, customers will not feel obliged to implement any measures beyond legislative compliance. Access to financial services is empowerment, without which the customers' operations would be severely curtailed.

The European Commission has provided guarantees, through the European Investment Fund for banks to offer loans on preferential terms to EU-based SMEs that are either operating on an environmentally beneficial basis or providing products or services that are environmentally beneficial. European banks were offered the opportunity to act as the local intermediaries and adjudicators for such loans. BCP in Portugal highlighted in the survey response that it has made use of this opportunity and now positions itself as the environmental bank in Portugal.

'Good Housekeeping'

Although banks are not obvious environmental polluters, they do tend to be large consumers of energy, especially paper, and they can be major property holders. *Good Housekeeping* refers to the steps banks take to reduce their own direct negative impact upon the environment, for example through management of their facilities and properties. Such measures would include practices like recycling waste, reducing CO₂

emissions and using renewable energy and product sources. To effectively implement such practices the norm within the sector is for the bank to issue a formal corporate environmental policy or an environmental report so that such practices could be communicated not only to customers and outside observers, but also to their own staff. The survey investigated whether employees receive environmental training and if managers' responsibilities included the implementation of the bank's environmental policies.

In Denmark strict environmental legislation exists and the Danish respondents all practise *good housekeeping*. *Housekeeping* includes reducing their direct environmental impact by recycling paper (of which banks are major consumers) and targeting reductions in energy consumption and CO2 emissions.

In Finland, Merita 'does not consider the bank to have an environmental impact', but the newly merged MeritaNordbanken in Sweden stated they have an environmental policy but did not enclose it with their reply.

Amongst the French banks, where the rate of reply was poor and most of the information is based upon ARESE research material, Dexia came out as the clear leaders in this area whilst CCF, Paribas and SocGen are making no discernible efforts at all. ARESE stated that BNP, a respondent to our survey, is a 'socially responsible group' but they do not have an environmental policy.

The German banks all have good practices in this area, along with the Dutch and the Swiss. It is a shame that the Swiss Bank, Sarasin & Cie, did not reply, as their environmental department is well respected for their proactive stance on environmental matters and sustainable development.

In Ireland retail banks AIB and Bank of Ireland are proactive in this field, but Anglo Irish Bank could only state that the bank «follows best industry practice».

Spain is generally poor in terms of the environmental stance of companies, but the banking sector seems to be the leader in environmental management as it slowly develops environmental policies and applies *good housekeeping* practices, the leaders in the sector being BCH and BBV.

OVERSEAS OPERATIONS

Banks with overseas operations in developing nations have the opportunity to promote progressive standards of workplace practices globally, thereby encouraging such practices locally. The results of the survey would indicate that the majority of banks with overseas operations could improve their performance in this area.

Banks have the opportunity (and the moral responsibility according to the Rio Resolution Statement) to integrate environmental and social criteria into their investment policies and thereby practise responsible lending. The responses - particularly those concerning debt alleviation - are an indication of their attitude towards overseas responsible lending. Most banks still holding debts to developing countries are prepared to participate in international multilateral initiatives to review repayments.

'Third World Debt'

During the Seventies, European banks were encouraged, by their governments to lend money to developing countries. It was seen as being beneficial to the developing countries. Unfortunately, the loans were granted on unsustainable terms. For example, sovereign debts had unrealistic terms of hard currency repayment based on commodity export prices, which, of course, may fluctuate. When such prices dropped too low, the debtors defaulted on their repayments. The levels of debt have been so high that such defaults caused debt crises. Lenders, specifically banks such as NatWest in the UK were in danger of collapse.

The nature of Third World Debt has changed during the nineties. Of the world's poorest nations, the amount of total debt to private banks is now around 10-12%⁶, whereas previously the banks held the major portion of loans to the poorest nations. The various debt crises during the last decade prompted the transferral of the responsibility of the loans from the private to public sector. The IMF and World Bank issued further loans to indebted countries to repay the original debts. European governments took over portions of the debt, and banks sold some of the debt on the secondary markets. These measures saved the relevant banks from, if not collapse, at least serious financial losses. The lack of transparency of the relationships between the banks, central banks and governments, means that there is no way of establishing on what basis the bail-outs were arranged. They also make the majority of debts virtually untraceable and created no relief from the debt burden for the indebted countries.

It is unclear how the debt crises of the last ten years will actually affect banks' lending activities. Concerns raised by pressure groups, such as LAMB (Lloyds and Midland Boycott) in the UK, remain relevant. Will public money continue to be used to bail out the banks when they make irresponsible lending decisions which later backfire? On what terms did the European governments agree to save those banks at risk of collapse?

In the US, all companies, including subsidiaries of foreign based companies, are obliged to declare where they are lending or investing money abroad. There is no such legislation for similar declarations in Europe. Certain information is available concerning which countries are creditors, and to what levels³, but tracing the debts to individual banks is almost impossible without the co-operation of the relevant banks.

In Europe, due to the lack of transparency in the reporting of banks' results, they are able to avoid fully disclosing to where they have lent money. The essence of Jubilee 2000, the international campaign to reduce the developing world's debt burden, is to motivate the general public across Europe to put pressure on their governments to work with the banks to write-off such debts. Banks seem generally opposed to unilaterally action, probably based on the assumption that European governments will once again provide assistance.

The Initiative for Heavily Indebted Poor Countries (HIPC) is targeted at relieving the world's poorest countries of their debt burden. However, the HIPC Initiative is unlikely to achieve its aim of relieving debt burden, due to its conditions. For example, the very high percentages of export income that HIPCs are expected to pay.⁴ In addition, «this initiative fell short of the needs of debtor economies because creditors remain all powerful, judge, jury, bailiff, interested party and witness, all in one.... creditors are unwilling to relinquish their power in favour of a fair and efficient procedure satisfying the most basic legal principles.»⁵

The Eurodad report states that the main supporters of this initiative came from the smaller European countries such as the Nordic states, Switzerland and the Netherlands. Meanwhile Germany, Japan and Italy formally support the initiative but practically block its implementation by insisting on strict compliance with the rules. Their stance appears due to their own current domestic economic difficulties, which are increased for Germany and Italy by the strict budgetary requirements to qualify for the single European currency. However, as noted by Jubilee 2000,

Germany is forgetting that without the massive cancellation and restructuring of her debts to sustainable levels after WWII, Germany would never have achieved her 'miracle' economic and social recovery. However, the German banks, which did voluntarily disclose their positions as creditors to developing nations, highlighted that they were actively involved in programmes to alleviate the burdens of such debt. Such action primarily takes the form of debt rescheduling, e.g. by Commerzbank, Deutsche and DG banks. Only one of the German banks, a mortgage bank, admitted issuing such debt but gave no details of any programmes to alleviate debt burden.

The lack of an international insolvency law needs to be addressed in order to overcome the problems arising from earlier irresponsible lending and prevent future similar mistakes. «Commercial banks have quite often, though not always without «persuasion», granted debt reductions in various forms, (but) if international insolvency allowing countries to go bankrupt had existed in the 1970s, loans would certainly have been given more cautiously».⁶

At a meeting in Tegucigalpa, Honduras, in January 1999, representatives from 16 Latin American countries gathered to formulate a continent-wide agreement, and to co-ordinate campaigning. The Tegucigalpa Declaration called for:

- Transparency in the lending/borrowing process and inclusion of all parties involved.
- Integration and co-ordination of all parties involved, applying an insolvency procedure to indebted countries along the lines of bankruptcy laws existing in countries such as the United States.
- Allow indebted countries the right to declare themselves insolvent. Debtors and creditors will appoint an equal number of judges for a Tribunal or Arbitration Jury.⁷

The establishment of an independent Debt Review Body (DRB), set up by the UN or international court of justice, to act as an arbitrator, is required, to defend the sovereignty of a debtor nation, while being fair to creditors.

«The overwhelming purpose of the concordat would be to ensure that the money released (i.e. debt service remitted) goes into the service of the poor.»⁸

Such proposals would appear to offer a realistic, humanitarian and sustainable solution to the debt crisis. Now the active participation of the creditor governments and banks is required.

Human Rights

The growing trend of globalisation of banks means that their influence stretches far beyond the borders of the countries in which they operate. As banks become multinational organs, their indirect government support through syndicate loans or financing of infrastructure projects, may make a difference to whether an oppressive government gains or remains in power. If the banks issue and apply a code of conduct for their operations in countries with oppressive regimes, investors may then be able to make a judgement on the social responsibility of such banks.

The rights of individuals also need to be upheld in such countries, if banks wish to avoid being seen in a negative light. A template for such codes is Amnesty's publication "Human Rights Principles for Companies" published in January 1998. Encouragingly HypoVereinsBank and Anglo Irish Bank support the proposals «in principle» but «not formally», and Bank of Ireland, Erste Bank, Banco Central Hispanoamericano, Christiania and Banco Comercial Portugues also confirmed support for the document. BNP allows staff to host Amnesty activities on the Bank's premises on a voluntary basis, whilst Credit Suisse claimed they were «not actually supporting Amnesty's principles, however, we have taken due notice of the document».

Burma

Burma is treated as a special topic because, although while similar to China in being governed by an oppressive regime, the democratically elected leader is under house arrest and has called for international dis-investment.

In the US, the Federal Government issued a law banning new investment in Burma. In the state of Massachusetts, and many US cities including New York, Los Angeles and San Francisco, there are 'selective purchasing laws'. Such laws effectively create a boycott of companies that have business interests in Burma. Although there is no specific legislation in Europe that forbids companies from operations in Burma, the EU has revoked tariff privileges for Burmese imports due to Burma's forced labour record.⁹ There has certainly been sufficient publicity for companies and individuals to be aware of this issue.

BNP has a representative office in Burma, which has contact with local banks "sporadically" for documentary credits. However, these credits can be used by the Burmese authorities to purchase products or services, which may help to prolong the oppressive regime. BNP stated that they have «very limited business to date». BNP prefers to "consider our representative office as an observer

in the hope of better days". HSBC has a single staff representative office to internally monitor developments within the country. Deutsche Bank also has dealings with Burma, but failed to specify details. The other respondents stated that they have no operations in Burma.

COMMUNITY INVOLVEMENT

Access to Banking

The commercial Banking sector has a key role and responsibility in overcoming the problems arising from social exclusion, as recently stated by the UK Government. Access to banking has become an indispensable necessity for people of all classes, in order to receive payments, to finance consumption and to provide for retirement¹⁰. The «strategic economic position (of banks) coupled with their State charters and guaranteed deposit insurance renders them *quasi*-public institutions or at least positioned to be more socially responsible than ordinary private undertakings». ¹¹ Although in some EU states there is legislation to ensure access to banking for all individuals, the actual services offered by banks are often inappropriately priced for lower income sections of society. «Less financially sophisticated and low-income consumers may be generally time-consuming for banks. The expense of time, coupled with the lack of opportunity to cross-sell other bank products to customers who do not have very much money illustrates the way banks actually seek to make money from their customers»¹². In the present era of high competition and 'lean-banking', devoting resources to this area of business can be overlooked due to the overriding profit concerns.

The banks' products are often priced out of proportion to the service offered, for example the very high penalty charges of going overdrawn without prior permission from the bank. In France such action can actually lead to the exclusion of that individual from the right to hold a bank account and therefore become an '*interdit bancaire*', which can lead to further exclusion from the workforce because salaries are paid directly into bank accounts.

The majority of banks responding to the survey were aware of the issue of access to banking. However, only a few of the retail banks had formalised specific policies and products to address this issue. Of those, efforts were directed more towards supporting small and low-income businesses, rather than individuals. For example, banks such as Deutsche, Den Danske, Banco Popular Espanol and Banco Central Hispanoamericano stated that small and low-income businesses are part of their retail banking

focus. A proactive stance is taken by Allied Irish banks which are working with the Irish Government to automate state Benefit payments through the electronic banking infrastructure. Whilst Anglo Irish Bank is not a retail bank, it has extensive relationships with the Credit Union movement, which often provide financial services to individuals otherwise excluded from using banks.

Social inclusion has specifically become a focus of attention for the major U.K. banks, who are all, to varying degrees, investigating or introducing services in the areas of community banking and micro-credit. Such projects have previously been addressed by the smaller banks in the non-listed sector, such as the pioneering Triodos Bank. Triodos only lends to «value-led projects» with social and environmental objectives and operates in The Netherlands, Belgium and the UK. It has a combined balance sheet of £250 million across the 3 countries. Although this figure is relatively small, Triodos Bank has a very low loss rate because they insist on being knowledgeable about their markets¹³.

Also in the UK, NatWest states that social exclusion is in the bank's top five priorities to address and has established a Social Exclusion Unit to explore how the bank can improve access to banking for disadvantaged individuals and communities. Meanwhile, LloydsTSB invested £9 million into community programmes in 1998 mainly to support regeneration in socially deprived areas and the bank is also supporting initiatives to provide community-based financial services to such areas.

In Germany, Commerzbank addresses, cultural and social issues through the 'Commerzbank Foundation', because "the quality of a society can also be gauged by how it treats its disadvantaged members.". However it is evident, that throughout Europe, if banks are really to address the issue of access to banking then more attention is needed to develop appropriately priced services for lower income sections of society.

Charitable giving and community involvement programmes

In the United States, the Community Re-investment Act (CRA) ensures that financial institutions, whose annual turnover is above a certain level, re-invest into registered community programmes. «CRA has been a key tool in the redevelopment of lower-income and minority communities since its passage in 1977. In recent years, the regulations which implement CRA have undergone substantial revisions, in part, so that the law would reward institutions based more on

performance and outcomes (loans to lower-income communities, bank branch locations, etc.) rather than on promise and process (e.g., marketing, documenting contacts, etc.). CRA places an affirmative obligation on banks and thrifts to meet the credit needs of their community. Historically, CRA has been a critical tool in improving access to credit and promoting development in lower-income communities»¹⁴.

Such legislation does not yet exist in Europe and it is the prerogative of each bank how, or indeed if, they wish to address the issue of community re-investment and charitable giving.

Jyske Bank in Denmark considered that payment of the high level of Danish corporation tax was equivalent to community re-investment, where the government decides where the money is spent. Bankinter in Spain appears to hold a similar view. Banco Pastor concentrates all its operations in the area of Galicia, where the Bank was founded and a local charitable foundation, 'Foundation Barrie de la Maza', owns a 42% share of the Bank, due to the generosity and lack of heirs of the Bank's founder. Argentaria supports community initiatives through Fundacion Argentaria.

Certain banks did not wish to disclose where and how much was spent or donated to the community, and others stated that their programmes were either ad hoc or changed annually.

An example of best practice again seems to be the approach of Allied Irish Bank, which has a strong programme of charitable giving and community initiatives. Each year approximately 2% of pre-tax profits is allocated for community based initiatives. In 1997, £5 million was donated in Ireland and the UK through its 'Corporate Giving Programme', addressing issues ranging from poverty and business start-up support to youth, environmental and arts projects. Anglo Irish Bank also annually allocates a similar percentage of pre-tax profits.

In the U.K. in 1998, LloydsTSB donated £26.5 million, 1% of its pre-tax profits, Barclays - £19 million and NatWest - £15.9 million. Such donations are primarily focused on education, the arts and sport, as well as varying degrees of community support. Barclays highlighted that they offer secondment placing for staff, mainly in the charitable organisation or social banking sectors. Such advice and mentoring can be of immense value to the recipient organisations and individuals. A lack of knowledge of financial processes and management are often the biggest barriers to access financial services

Commerzbank, through its Foundation, is another leader in this sector, allocating 3% of pre-tax profits. The Foundation is primarily focused on improving both the living and working conditions of people in the vicinity of Commerzbank's Head Office, whilst also taking into account environmental considerations.

BUSINESS PRACTICES

This section in the survey referred to how the banks treat suspicious deposits and whether the banks invested into «negative criteria» types of business. These issues provide information about the level of disclosure by the banks.

Disclosure

The rate of replies to the survey is an indication of how much further the banking sector has to go before it can be considered to be genuinely promoting transparency. Of the banks that did reply to the questionnaire the majority declined to provide any details of their interests in military suppliers, tobacco companies and the nuclear industry.

The European banks, which are based within the E.U., are obliged by directives to prevent money laundering (The Implementation of the Money Laundering Directive 91/308). However, non-E.U. European banks are not obliged to comply, for example the Swiss banks. Switzerland has its own legislation and regulations.

The principle of the Swiss Banking Secrecy Law protects the financial privacy of clients to the degree that bank employees are criminally liable if such confidentiality is broken. Similar laws exist in Austria and Luxembourg. Approximately 99% of all Swiss banks are members of the Swiss Bankers Association and the sector is strongly self-regulated. It was such self-regulation in conjunction with the supervisory body that decided to allow details of pre-1945 dormant accounts to be made public recently. Federal regulation concerning all dormant accounts is currently being considered, and the banking sector is urging that the time lapse for release of details to the state authorities is 20 – 30 years. This comparatively long period, compared to the 5 years in the U.S., is due to the banks' wish to maintain a long relationship between the banks and clients and their families¹⁵.

Exceptions to the Swiss Secrecy Law do exist in other regulations, such as in the case where the client is under criminal investigation in Switzerland, or in case of bankruptcy. The Swiss banks are not obliged to report any suspicious deposits in accordance with the EU Money

Laundering directive, because Switzerland is, of course, not a member of the EU. In Switzerland, since 1990, there have been regulations stating that deposits, which are suspected of being connected to money laundering activities, must be reported to the authorities. However, primarily due to the Secrecy Law, Swiss Bank accounts remain one of the preferred destinations for money transferred from dubious sources. Allegations of deposits, such as «Marcos' Millions», continue to abound. The two Swiss banks responding to the survey, Credit Suisse and UBS, refused to disclose any details of the banks' investments or lending, stating that those details were 'proprietary business information'.

There was a poor reply rate from Italian and French banks, with only 1 reply from each country, Banca Fideuram and BNP respectively. The Spanish banks responded well. They appear in a favourable light due to their generally good levels of disclosure and the fact that most appear to be making some efforts to improve their environmental stance in a country that is not traditionally a leader in this field.

The results of the survey for the Danish banks were surprising for a country which is generally considered to be proactive in the area of environmental protection. Both BG Bank and Jyske Bank would only respond to the questionnaire over the telephone. Den Danske Bank did not return the questionnaire, but instead chose to send a standard reply letter. Although this might indicate a willingness to disclose and publicise Den Danske's positive environmental and social practices, they thereby avoided replying to some of the more difficult questions.

German DG Bank and Commerzbank did disclose that they have business interests in the listed negative industries. However, such openness can be seen as a positive aspect, especially as the former stated that the negative industries amount to only a minute portion of their loan portfolio and Commerzbank named to whom they make such loans. Such transparency may encourage investors that the bank is less likely to be hiding potentially damaging information.

The example set by the Co-operative Bank in the UK of providing an independently verified Social Report can be regarded as best practice within the sector. The Bank's 'Partnership Report' includes the views of seven interdependent stakeholder groups: shareholders, customers, staff and their families, suppliers, local communities, national and international society, past and future generations of co-operators. Such a balanced approach to reporting provides clear information as

to the operations and attitudes of the bank, and there is less likelihood of any damaging information appearing in the future.

Disclosure Case Study: The role of European banks in their dealings with the Nazis.

Although this subject was not part of the survey it is relevant, as a case study, to the issue of business practices and disclosure as a social issue that gives rise to financial liability.

It has taken more than half a century for dealings with the Nazis to be acknowledged by German, Swiss, Austrian and other European banks. The findings of Independent Committee of Eminent Persons (ICEP, or Volcker Committee), which will be published by the middle of 1999, and the results of the Bergier Commission, are likely to prompt further claims. The French banks, SocGen and Paribas, and the British Bank, Barclays, have also been in negotiations relating to settlement of claims against them relating to the banks' actions during the war.

The German Banks:

It has been revealed only very recently that both Deutsche and Dresdner banks bought gold from the Nazi-controlled Reichsbank, whilst being aware such gold was stolen from Jewish companies, homes and individuals. Dresdner Bank was known as the SS Bank, whilst Deutsche Bank helped to finance the construction of concentration camps. Such revelations appeared in the wake of the US class actions made against the Swiss banks. Deutsche Bank's planned merger with America Bankers Trust has also forced such issues into the open as the US regulators' probe Deutsche's past.

German companies originally stated that they are not liable to any claims because these were dealt with by the terms of settlements after the end of the war. However, Deutsche and Dresdner have now agreed, together with other German corporations, to contribute to an umbrella fund to make reparations¹⁶.

The Swiss Banks:

Revelations appearing from this scandal certainly tarnish the image of the Swiss as a neutral entity during the War. The Swiss banks, acting in concert, were far more biased towards the Nazis and, indeed, assisted in the financing of the Nazi military effort.

In 1998, UBS and Credit Suisse reached agreement with lawyers and representatives of the class action plaintiffs and certain Jewish organisations to settle claims of Holocaust victims and survivors. The two Swiss banks agreed to pay a total of USD1.25 billion.

It was the need for US regulators' approval for the UBS merger with SBC that finally forced the Swiss banks to address the issue of dormant accounts. It was not from a moral desire to make amends for the banks' actions during the war, otherwise they could have acted much earlier, rather than waiting decades before releasing details of the dormant accounts. Nevertheless, the Swiss are now acting positively, with the establishment of the Holocaust Fund by the major Swiss banks, the Swiss National Bank and private Swiss enterprises.

The Austrian Banks:

Like others of their European counterparts, the Austrian banks have avoided addressing the issue of compensation to depositors, or their relatives, whose accounts were seized under the instruction of the Nazis. However, Bank Austria has been more forthcoming than PSK, the Post Office Savings Bank. PSK does not admit their active role during the period of Nazi 'occupation' and therefore does not acknowledge the claims for repayment.

Summary of case study

The process of settlement is likely to drag on for several years during which time yet more claimants will die. Without even considering the moral issues involved, due to their lack of previous disclosure, the banks have to deal now with these embarrassing and damaging claims. However, there is no likelihood that this episode will stimulate any change in the Swiss Banking Secrecy Laws. Improved disclosure will only be possible through action by the banks themselves. By highlighting the potential financial losses caused by their lack of disclosure, it is hoped the banks will learn from their mistakes and avoid such scandals in the future.

CONCLUSION

The publicly listed commercial banks are traditionally conservative. Although certain banks are taking steps to become more progressive in their attitudes towards sustainable development, examples of which are listed in the Best in Class and Progressive tables below. The sector as a whole is only slowly beginning to address the issues involved.

Best in Class (table 1):

Company Name	Country	Strengths (see below)	Concerns
Den Danske Bank, A/S	Denmark	1. 2. 3.	1) Limited disclosure: issued standard reply.
Commerzbank AG	Germany	1. 2. 3. 5. 7. 8.	1) Loans/Invests in military and nuclear (balanced by disclosing details).
DG Bank	Germany	1. 3. 7. 8.	1) Loans/Invests in military and nuclear (balanced by disclosing details).
HypoVereinsBank	Germany	1. 5. 6. 7. 8.	
Allied Irish Bank	Ireland	1. 3. 5. 7. 8. 9.	
Argentaria	Spain	1. 2. 3. 5. 6.	1) 3rd world debt.
Banco Central Hispanoamericano	Spain	1. 2. 3. 4. 7. 6.	1) Unknown effect on BCH's proactive stance by merger with Santander.
Banco Bilbao Vizcaya	Spain	4. 5. 7. 9.	
Bankinter SA	Spain	2. 8.	1) Environment. 2) <5% of loan book in military, nuclear or tobacco.
Banco Pastor SA	Spain	4. 5. 8.	1) Environment.
LloydsTSB	UK	1. 2. 3. 5. 6. 7. 9.	1) No loans declined on environmental grounds.
National Westminster	UK	1. 3. 5. 7. 8.	
Royal Bank of Scotland	UK	1. 2. 3. 4. 5. 6. 7. 8.	

Progressive Banks (table 2):

Company Name	Country	Strengths (see below)	Concerns
Erste Bank der oesterreichischen Sparkassen AG	Austria	4. 5. 8.	1) No environmental audits. 2) 3rd World debt and no debt burden initiatives
Banque Nationale de Paris	France	2. 3. 5. 8.	1) Burma office. 2) Lack of external environmental consideration.
Dexia (Credit Local de France)	France	7.	1) No reply.
Bank of Ireland Group	Ireland	1. 3. 5.	1) Investments/loans in tobacco. 2) Minimal reply
ABN Amro Holdings	Netherlands	7. 2.	1) Lack of disclosure. 2) Loans to finance controversial mining projects.
Christiana Bank	Norway	1. 3. 7.	1) Loans to finance mining and oil extraction (reflects Norwegian economy).

BCP Comercial Portugues	Banco Portugal	5. 7. 8.	1) Invests/lends to tobacco industry.
Credit Suisse	Switzerland	1. 2. 5. 7.	1) Lack of disclosure of business investments.
UBS (merged with Swiss Bank Corporation)	Switzerland	3. 7.	1) Lack of disclosure of business interests. 2) Funding of Ilisu Dam project.
Barclays	UK	1. 3. 5. 7.	1) Slow to develop env policy, compared to country sector. 2) Lack of social exclusion measures.

Key to 'Strengths', which were categorised for simplicity on the following basis

1. Responsible lending
2. Workplace practices
3. Good housekeeping
4. Ethical business policy
5. Community initiatives
6. Overseas operations workplace practices
7. Environmental stance
8. Disclosure
9. Responsible financing of trade to developing countries and/or debt relief.

From the results of the survey, the prime areas of concern are the banks' attitude towards transparency and accountability and their lending policies. Transparency at every level is necessary to instil stakeholder confidence. European banks generally remain particularly conservative in their attitude towards transparency, but accountability and liability will ultimately decide how they progress in the future.

The majority of the banks wish to avoid the role of moral arbiter and do not consider themselves as regulators. Banks hold a «quasi-public» role in society, but generally seem unwilling to accept that fact and adopt the linked responsibility. Too many banks still consider that what they provide is merely a retail product, with responsibility ending at point of sale. But financial services empower the banks' customers and therefore control how companies operate. A change of attitude by the banks has been shown over the last few years, reflected by the increase of environmental reporting within the sector. The banks now have the opportunity to anticipate further change and take a progressive stance.

Although many banks are taking steps to improve their own operational ecology, the development of product ecology - the incorporation of environmental aspects into the banks' product and services - is made primarily on the basis of their own risk reduction. In order to promote best practice, the banks need to start measuring their customers' environmental performance. Until this occurs on a widespread basis, the majority will do nothing more than adopt minimum compliance to existing regulations.

However, if small banks, like those in the co-operative, mutual and social sectors are able to impose environmental and ethical conditions in their loan portfolio and, not only survive, but also make a profit, then surely the bigger commercial banks can be more proactive in this area.

As communication concerning the issue of sustainable development improves, governments, companies and individuals increase the attention they pay towards this matter. Companies, by necessity, are becoming more accountable to a broader range of stakeholders.

We commend all respondents for their disclosure, and encourage commitments to regular social and environmental reporting, which necessarily indicate social responsibility. Europe can learn by the experiences of U.S. steps to address social exclusion. This may require statutory legislation, but is possible through self-regulation.

The Jubilee 2000 Coalition has proposed a variety of possible methods to overcome the developing world's debt burden and avoid repetition of previous lending mistakes. It provides the banks with the chance to be rid of an embarrassment that continues to be a nuisance, at least in terms of public relations. Proactive support of such proposals, or constructive dialogue to create universally acceptable measures, will be required make use of this opportunity.

The Model Bank of Best Practices

Drawing on best practice in the sector, combined with proposals for improvements, a model bank

has been described below. Such a bank would include within their operations the following:

- ◆ Application of the guidelines of the UNEP Statement, as practised by HypoVereinsBank.
 - ◆ Accountability can be achieved through independently verified Social Reporting on a regular basis, along the lines of the Co-operative Bank in the UK. Such reporting requires communication to all stakeholder groups and transparency of all actions. As a step towards that goal, banks can encourage and support customers to conduct better environmental practices and regular environmental reporting. BCH in Spain supported such practices by sponsoring seminars and conferences. Larger companies could implement independently verified Environmental Management System (EMS), to ensure that resource usage is monitored and efficiency savings can be targeted.
 - ◆ Supporting such initiatives as the European Investment Fund, as done by BCP in Portugal, to provide SMEs which are providing environmentally beneficial products or services with favourable lending terms.
 - ◆ Environmental screening of customers' operations, that includes measuring of customers' environmental performance. The latter part is an area that banks are generally avoiding, claiming that they should not act as the environmental policemen. However, unless performance is measured, companies will tend to operate only to minimum compliance.
 - ◆ Supporting Community Finance Initiatives. These tend to require adaptation to local requirements, as well as innovative lending and knowledge of the market and borrowers, as practised by Triodos Bank. Support may also include premise use, staff secondment, knowledge transfer, training and mentoring, which is currently conducted by a number of the surveyed banks.
 - ◆ Implementing fully transparent overseas lending policies, which use lessons from previous debt crises to reduce risk to the Bank and the debtors. Transparency, as recommended by Jubilee 2000 coalition and similar organisations, is a fundamental criterion to ensure that sustainable lending terms may be agreed by all stakeholders.
 - ◆ Publishing an ethical policy that clearly states any areas to which the banks would refuse to
- lend, and also highlights the standards by which customers and suppliers would be required to operate, along the lines of the ethical policy of the Co-operative Bank in the UK.
 - ◆ Adapting social inclusion policies to improve access to banking services for those sections of society that are being increasingly excluded. This would include for example providing simple, easy-to-use accounts, access to branches or at least ATMs which also accept deposits placed in convenient locations.
 - ◆ Best practice in the workplace including an equal opportunities policy, comprehensive training programmes, thorough maternity and paternity benefits.
 - ◆ Such features in a bank do not preclude making a profit, as has been proven by those companies incorporating some of the above practices. In addition to providing a financial return, such a bank would provide social and environmental benefits. Self-regulation of the European Banking sector, or E.U. regulation, may be required to create minimum standards for banks to apply. Alternatively an extension of the UNEP Initiative guidelines could provide global standards, incorporating the above benchmarks. Banks have always been keen to consider their position as a cornerstone to society. By adopting the above measures and a proactive attitude towards sustainable development, the banks can maintain such a position in our society of rapidly evolving expectations.

¹ Peter Bosshard, Berne Declaration.

² GAP is the Turkish acronym for South-East Anatolia Project - the vast program of dams built on the Euphrates and Tigris.

³ «Taking stock of debt», Eurodad publication.

³ Ibid.

⁴ Philipp Hersel 'The London Debt Agreement of 1953 on German External Debt: Lessons for the HIPC-Initiative' in EURODAD (1998) 'Taking Stock of Debt' .

⁵ K. Raffer, Introductory Statement, Panel Discussion, London 18 March 1999.

⁶ Kunibert Raffer 'The Necessity of International Chapter 9 Insolvency Procedures' in EURODAD (1998) 'Taking Stock of Debt'.

⁷ Ann Pettifor, Director, Jubilee 2000 Coalition UK, 'Concordats for debt cancellation'. 18 March 1999.

⁸ As above.

⁹ Simon Billenness, Franklin Research & Development, 711 Atlantic Avenue, Boston MA 02111, USA.

¹⁰ 'A European Regulation for Social Responsibility of banks? Learning the lessons from the US American Community Reinvestment Act' Jan Evers.

¹¹ 'The Social Responsibility of Credit Institutions in the EU', Institut Fur Finanzdienstleistungen e.V. (IFF), Hamburg, Benoit Granger, Malcolm Lynch, Leo Haidar, Udo Reifner and Jan Evers.

¹² 'The Social Responsibility of Credit Institutions in the EU', Institut Fur Finanzdienstleistungen e.V. (IFF), Hamburg, Benoit Granger, Malcolm Lynch, Leo Haidar, Udo Reifner and Jan Evers.

¹³ 'Small is Bankable: Community reinvestment in the UK', Ed Mayo, Thomas Fisher, Pat Conaty, John Doling and Andy Mullineux, November 1998.

¹⁴ 'The Community Reinvestment Act and Community Development Financial Institutions. Qualified Investments, Community Development Lending, and Lessons from the New CRA

Performance Evaluations', Daniel Immergluck, Woodstock Institute, September, 1998

¹⁵ Swiss Bankers Association, Silvia Matile.

¹⁶ 'International Monitor' March 1999, produced by the office of New York City Comptroller Alan G. Hevesi. www.financenet.gov/nycnet.htm