PATHWAYS TO SUSTAINABLE BANKING MANAGEMENT

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This paper describes one of the major challenges of the future: the sustainable development of the society. Sustainability is now increasingly recognized as central to the growth of emerging market economies. For the banking sector, this represents both a demand for greater social and environmental responsibility as well as a new landscape of business opportunity. Several years ago, the main part of the banks did not consider the social and environmental problems relevant for their operations. Recently, the banks began to realize the major impact of the sustainable development over the way of ulterior development of the society and, implicitly over the way of creating of the banking value in the future. In this context, the development of a banking management system, based on sustainable principles represents one of the provocations of these days.Starting from literature in the sustainable banking management field in this paper are presented several relevant issues related to risk management in the context of sustainable banking financing: the need to implement the sustainable management principles in financial and banking industry; the role of banks in sustainable development of society; social and environmental risk management policies, events that have shaped the role of the banking sector in sustainable development; international standards regarding sustainable banking management such us: Equator Principles for sustainable investment projects' financing or GRI principles for sustainable reporting. Furthermore, we developed a practical case study related to the implementation of sustainable banking management at Bank of America.
Keywords: sustainable development, sustainable banking management, environmental and social risks, Equator Principles, GRI Principles.
JEL Classification: G21

Introduction

Sustainable development is one of the key themes in the twenty-first century and in the same time a problem that need solution as soon as possible. The role of banks in the achievement of sustainable development is significant considering the intermediary role that they play in society. This intermediary role is both quantitative and qualitative. Due to their efficient credit approval systems, banks are well equipped to weigh risks and attach a price to these risks. Through such price differentiation, banks can foster sustainability. Banks can also develop more sustainable products, such as environmental or ethical investment funds. In addition, there is great scope for banks to improve their internal environmental performance.

Literature Review

The literature in the sustainable banking management field is not too rich because the idea of this management is rather new. The main innovation in this field belongs to some researcher such as:
Bouma, J., Jeucken, M. and Klinkers, L. (2001) wrote a book, "***Sustainable Banking – The Greening of Finance"*** with significant impact on banking activity related to sustainable development. In order to understand the banks towards sustainability Jeucken identified four stages: defensive, preventive, offensive and sustainable banking. Jeucken highlighted important differences between regions, countries and banks with regard to sustainable banking. The book looks at perspectives and case studies on how various changes in the financial sector are moving banks in the direction of sustainability. The authors approach five central themes in their book: the policies of banks, transparency and communication, environmental investment funds, environmental risks and their repercussions for banks' products, and the role of governments, NGOs and multilateral banks.
Stigson. B, president of the World Business Council for Sustainable Development (2004) underlines the idea that transparency and communication are relevant to a number of stakeholders, including social investors and necessity for banks to elaborate a system of metrics and reporting

with cross-comparable an indicator which represents the management tool that will allow banks to measure the link between environmental, social and economic performance and shareholder value.
Schaltegger, S. and Figge, F. (2005) speaks about the necessity and importance of sustainable development funds. They believe that sustainable development funds as financial markets seek to reduce risk by incorporating environmental and social performance into investment decisions. "*Risks that have been turned down by proactive asset managers will end up with those asset managers that do not yet have the appropriate screening and assessment methods in place*" write Schaltegger and Figge.
The International Finance Corporation (IFC) (2007) found that: (a) individual banks had to devise their own business case for sustainable banking, (b) reputation and branding had become the top reason for many banks to integrate sustainability, (c) the benefits outweighed the costs, and social and environmental risk management improved the quality of a bank's portfolio and lowered insurance liabilities and compensation claims.
Scholz, W. R. (2006) investigates decision processes in banking, which are connected with environmental risks and options. He found that incorporating sustainability criteria in lending processes will lead to credit decision processes, which have positive economic, environmental, and social outcomes. Banks - as lenders - have an important influence on economic processes and significant impact on sustainable development. He tried to incorporate sustainability aspects in lending processes by creating implementation models, which are useful for the banker´s day-to-day business.
One of the most known publication in this field is ***"The dos and don'ts of sustainable banking"*** wrote by **Gelder, J. W.** member of BankTrack. The book provides an overview of actions which the banking sector can take to become more sustainable and in order to achieve a performing sustainable banking management. Also, there are presented methods and guidelines for implementation in practice the principles and commitments of sustainable banking.
Other findings indicated that the Equator Principles contribute to long term sustainable investment (**Seuren, T. 2009**). **Hoepner,** A.(2010) highlighted the importance of social, environmental and ethical issues for the risk management, reputation and performance of banks and other financial institutions.
Regarding Romanian literature in this field, there is no book covering sustainable banking management issues to date. There are only a few papers that approaches the sustainable banking management issue as **Eremia, A. & Stancu, I. (2006) 's** article "Banking Activity for Sustainable Development", and Stancu, I., Armeanu, D. & Bălu, F.(2006) " The role of Banks in the Sustainable Development of Society".

Sustainable development

Over the past 30 years, with the remarkable growth in the global economy, there are also a number of pressing constraints on development, and entrenched negative trends, such as economic disparity and poverty, over-consumption of resources and environmental deterioration (OECD, 2002:5). These social and environmental issues awakened humanity to carefully think how to protect the our planet, this led to the 1972 UN Conference on the Human Environment in Stockholm as well as later the creation of United Nations Environmental Program (UNEP).
Since the 1980s, sustainable development, as a new concept for human development, has been one of the most popular terms in usage due to an ever increasing awareness of social and environmental issues. The World Commission on Environment and Development (WCED), also known as the Brundtland Commission, in its report - "Our Common Future," defined sustainable development as follows: *"Humanity has the ability to make development sustainable - to ensure that it meets the needs of the present without compromising the ability of future generations to meet their own needs."* (WCED, 1987:43).

Sustainable development want to make simultaneous equilibrium between economic effectiveness, social equity and environment for creating a good governance framework aims debate and solve the matters pose by our actual development.

Sustainable banking

The "sustainable banking" concept was introduced in literature by Bouma, J., Jeucken, M. and Klinkers, L. in 2001. The authors choose to define "sustainable banking" in a broad sense. "*The term is dynamic*," and the editors write, "*because its definition changes over time; also, it has no clear borders – the relationships of banks with their stakeholders makes the concept relevant to actors other than just the banks themselves*."

The assessment of sustainable banking management performance takes into account the adoption and implementation of international standards of sustainable development. The main international standards covering financial and banking sector are:

Equator Principles – regarding the financing of sustainable investment projects

Global Report Initiative Principles (GRI Principles) – for reporting of sustainable activities

The Equator Principles are a set of voluntary environmental guidelines created to manage environmental degradation that results from large scale developmental projects. On June 4, 2003, ten international banks adopted these guidelines, and by the end of June 2006 this number has grown to forty. In July 2006, the Equator Principles were revised, increasing their scope and strengthening their processes. According to the revised principle EPFI (Equator Principles Financial Institutions) members are requested to identify and finance only the investment projects that comply with the following ten Equator Principles:

Principle 1: Review and Categorisation
Principle 2: Social and Environmental Assessment
Principle 3: Applicable Social and Environmental Standards
Principle 4: Action Plan and Management System
Principle 5: Consultation and Disclosure
Principle 6: Grievance Mechanism
Principle 7: Independent Review
Principle 8: Covenants
Principle 9: Independent Monitoring and Reporting
Principle 10: EPFI Reporting

EPFIs use a system of social and environmental categorisation, based on IFC's environmental and social screening criteria, to reflect the magnitude of impacts understood as a result of assessment. These categories are A/B/C scoring system like "high, medium or low environmental or social risk".

The **Global Reporting Initiative (GRI)** is a framework of internationally accepted guidelines and principles for companies and organizations to report on corporate responsibility and sustainability performance. The GRI aims to develop a voluntary reporting framework that will elevate sustainability reporting practices to a level equivalent to that of financial reporting in comparability, auditability and general acceptance. This will be a welcome and efficient supplement to the questionnaires, interviews, press releases, media reports and other sources of information traditionally used for screening in investment decision making – social/ethical and mainstream.

Bank of America's Initiatives for Sustainable Development Financing

Bank of America Corporation is an American multinational banking and financial services corporation headquartered in Charlotte, North Carolina. It is the second-largest bank holding company in the United States by assets. Bank of America serves clients in more than 150 countries and has a relationship with 99% of the U.S. Fortune 500 companies and 83% of the Fortune Global 500.

Bank of America has great performance as regards sustainable banking. In 2011 Bank of America was the deserved winner of the Sustainable Bank of the Year Award. This prize was a reward for the dedication in the field of durability and their attention for social, environmental and financial values during their operations. Since 2007, the bank invested over 11,6 billion dollar in the improvement of climate change, as part of their ten-year plan of investing 20 billion dollar. Bank of America is the first large American bank that invests in forest preservation, wind power, ecological housing and organization that combat global warming.

The Equator Principles are a set of voluntary guidelines developed to address the environmental and social issues arising from financing projects. The Principles were adopted by Bank of America, and became a core part of a wider approach to managing sustainability risks in lending and investment. The Bank of America's actions regarding sustainable banking take into consideration two major lines: the social impact and the environmental impact. So, the actions for sustainable banking can be classified in two main categories: *actions with social impact* and *action with environmental impact.*

Actions with social impact

- organizes training programs for employees, learning and development are essentials in a fast-changing industry and as a result Bank of America regularly revises its training programs;
- conducts some surveys regarding the commitment, motivation and satisfaction of employees;
- bank's employees volunteered over a million hours in nonprofits and community organizations, like Free Arts NYC;
- funds innovative arts and culture organizations, like the North Carolina Dance Theatre in Charlotte;
- supports the revitalization of neighborhoods across the U.S., like Fells Point in Baltimore;
- invests in education for persons outside the company: last year, Bank of America gave over $200 million to nonprofit and community programs like a youth baseball clinic in Boston, part of their 10-year, $2 billion philanthropic goal.

Actions concerning the environment

- *Energy Efficiency*. Bank of America provides financing for a wide range of construction projects and facility improvements that enhance the energy efficiency of newly constructed and existing commercial buildings, federal, state and local government buildings, hospitals and schools. Bank of America has increased its focus on investing in and financing the development and use of cleaner renewable energies. Recent examples include:

Solar

- Bank of America's renewable energy finance team arranged the financing for a $23.9 million lease to a major solar company for the installation of photovoltaic solar power generation systems at seven Walmart and Sam's Club retail locations in Southern California. The photovoltaic systems provide enough power to meet up to 30 percent of each location's energy needs. The solar leasing deal helps advance Walmart's commitment to supply its stores with 100 percent renewable energy;

Wind

- Bank of America provided $43.6 million in tax equity to Peace Garden Wind Funding, a new wind power tax equity partnership managed by NextEra Energy Resources, the largest North American generator of renewable wind and solar energy. Peace Garden Wind consists of two wind farms in North Dakota capable of generating sufficient power to serve more than 55,000 homes in that and nearby states.

- *Carbon Market Services*

Bank of America Merrill Lynch operates an active carbon market services business that provides risk management, market access and liquidity, and structured finance to a variety of corporate clients looking to offset carbon emissions or manage their carbon exposure.

- *Conserving Water*

In 2010, were saved 36 million gallons of water from projects in the U.S., contributing to a 2.67 percent reduction in use from 2008 baseline. Savings from 2010 water projects resulted in a cost savings of $221,000. Fifteen percent of the savings can be attributed to fixture projects, such as sink aerators and updated low-flow bathroom fixtures, while the remaining 85 percent resulted from irrigation projects on the grounds surrounding facilities.

- *Recycling*

Throughout U.S. operations, were recycled nearly 1,996 metric tons of workplace waste in 2010. By the end of the year, recycling of plastic, aluminum and cardboard was available in 43 million square feet of the owned and leased space. Waste and recycling program enhancements in the U.S. alone resulted in annual cost avoidance of $565,000 in 2010.

- *Environmentally Friendly Cleaning*

At the end of 2010, Bank of America had sustainable cleaning practices in 77 million square feet of operational real estate in the U.S., nearly two-thirds of their global portfolio.

Bank of America's strategy on sustainable banking provides, among others, the annual publication of a report on the group's activities in this direction.

Conclusions

Under the general global trend toward sustainable development the banking sector, has been involved due to its very significant role in economic life. Therefore, interest in sustainable banking has gradually grown and has come to be regarded as a goal for the banks to pursue. The banking sector has taken some steps to stimulate sustainable development. However, because of the critical role finance plays, much more needs to be done. International institutions must continue to increase the awareness of banks and hence stimulate new product development. The World Bank must draw attention to the relationship between the environmental impacts of investments and financing decisions. And banks themselves must engage further with their customers, rating agencies, insurance companies, competitors and governmental policy-makers.

The study regarding the implementation of Sustainable Banking Management principles at Bank of America, demonstrated that: Sustainable Banking Management is a key aspect of Bank of America’s corporate governance and one of the strategic goals of the bank. Bank of America regards sustainable development as a major part of its specialized strategy management and operation for sustainable finance. Focused on the energy conservation and emissions reduction, Bank of America demonstrated to the world that the key to globally sustainable development lies in ensuring that the planet, the people and corporations can benefit on a mutual basis.

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