



Banking on Justice: Churches investing for a fairer future

Thursday 18 March 2010, St George's West, Edinburgh

CONFERENCE REPORT

The Church and Society Council of the Church of Scotland and ECCR (the Ecumenical Council for Corporate Responsibility) co-organised the Banking on Justice conference in Edinburgh on 18 March 2010, with support from five other church-based bodies.¹ Chaired by Rev Ian Galloway, Convener of the Church and Society Council, the event brought together almost 80 participants representing ecumenical organisations, Christian denominations, non-governmental organisations and the financial sector.

The conference aimed to highlight how the operation of global finance has too often harmed the poorest people and countries, and focused on the importance of ethical and socially responsible banking and investment for the churches and the wider community.

Panel 1: Global Finance: An Issue of Justice

Doug Gay (Co-author, *Justice and Markets* report): Inspired by love and anger

This address was properly a sermon, in which Doug Gay reflected on both his own and society's collective lack of preparedness for the credit crunch. He began with a call to penitence, before setting out an account of what we might learn from Jesus' teaching, and the collective wisdom of the Church Fathers, the Scholastics, the Reformers and modern theologians.

Doug Gay characterised Jesus as a watcher, seeing into the hearts of people and so understanding the motivation for their actions: praising the poor widow who gave out of her poverty, while condemning the 'scribes, who devour widows' houses'.² He called us to be 'tellers', giving an orderly account of the world, so that our economics might become a narrative of the management of the resources of creation. He also called us to be disciples, aware of the difference between understanding and doing what is good.

Pausing to condemn the idolatrous claim that there can be no alternative to the remorseless outworking of the reified 'market', Doug Gay reclaimed the Calvinist concept of total depravity to illustrate how we might restrain evil by acting in hope, since we live in God's world. Moving on to consider what else we might learn from Christian traditions, he identified the Christian realism of Calvinism, the concept of the common good in Catholic social teaching, the Reformed tradition of social transformation, and the power of witness in Anabaptist thought, which teaches us to work in the long rhythms of God.

Doug Gay recommended a number of practical measures: the living wage; just, rather than usurious, interest rates; mercy in the face of failure, for example through bankruptcy; a duty of

¹ ACTS (Action of Churches Together in Scotland), Christian Aid Scotland, CTPI (Centre for Theology and Public Issues, University of Edinburgh), the Iona Community and SCIAF (Scottish Catholic International Aid Fund).

² Mark 12:40-44; Luke 20:47 - 21:4.

distribution; and an understanding of corporate responsibility based around the question 'What does it mean to be a body?' He argued that none of these should be primarily theoretical concerns: we should find ways of communicating Christian arguments in public debate. In the context of investment we must decide when it is better to be on the inside, as critically engaged investors, or on the outside, choosing to disinvest because our concerns are not being addressed.

Kathy Galloway (Head of Christian Aid Scotland): False profits

Kathy Galloway began by highlighting that there had been voices, such as those of Church Action on Poverty and the Iona Community, speaking words of warning about what was wrong with the financial system prior to the economic crisis, but these had not been listened to.

Kathy Galloway explained the practice of 'transfer pricing' by which multinational companies manipulate prices of materials and services bought and sold between different parts of their business to avoid tax. Sixty per cent of world trade takes place internally within multinational companies, indicating the massive scale of the problem. The impact on the global economy of aggressive tax avoidance and evasion is estimated at \$160 billion per year. This is crucial because, while governments raise income in a variety of ways, tax is the most sustainable, dignified and accountable method.

Christian Aid and others are calling on the International Accounting Standards Board (IASB) to require companies to report profits and tax on a country-by-country basis, and for there to be automatic exchange of tax information between states, which it is thought will be included in a pending IASB consultation paper.

Kathy Galloway quoted President Obama, who highlighted a small building in the Cayman Islands which theoretically 'houses' 12,000 US corporations, as an illustration of the widespread avoidance of corporate tax liability. She also pointed to a more local example: the majority of CalMac staff on Hebridean ferries are nominally employed by a Guernsey subsidiary in order to avoid National Insurance obligations.

Kathy Galloway concluded that it is a fundamental breach of the democratic social contract if 'only the little people pay taxes' (as Leona Helmsley famously said). The rights and responsibilities of citizenship must go together. The money that could achieve the Millennium Development Goals is currently disappearing in a huge tax scam.

Miles Litvinoff (Co-ordinator, ECCR): Changing companies; changing banks

Miles Litvinoff gave a brief account of ECCR, which traces its founding impulse to industrial chaplains seeking to represent the claims of affected communities to multinational companies. ECCR seeks to ensure that benefits of business activity are more justly distributed and that negative social and environmental impacts are avoided.

ECCR works through research and advocacy. Its research may be comparative, such as ranking major food and drinks companies in terms of their water stewardship, or comparing how different supermarket groups treat migrant workers in their supply chains. ECCR actively engages with the companies it researches and makes direct recommendations to them, in addition to suggesting engagement issues for church investors.

A long-standing dialogue with Shell has resulted in a new report featuring case studies from five civil society organisations working in the Niger Delta. The day ECCR's report was published Shell announced the introduction of sustainability criteria into directors' remuneration packages, one of the report's recommendations.

Positive results are possible when stakeholders join together to put pressure on companies, for example through shareholder resolutions. ECCR has been closely involved in the tar sands resolutions filed for the 2010 AGMs of BP and Shell.

ECCR's model of change involves encouraging the churches to use their influence to the full. If church funds can be aligned with the churches' moral stance, then change is more likely. ECCR supports church members in engaging with their trustees and fund managers regarding church investments.

The ethics and sustainability of banks and banking will be the subject of a forthcoming ECCR report. This is intended to be an accessible digest of the issues, bringing together information from a variety of sources.

Miles Litvinoff highlighted some key issues in banking. Up to 8 million households in the UK are financially excluded, as are many small and medium sized enterprises. Bank centralisation has undermined links to local economies. Irresponsible lending had contributed to the personal debt crisis. Bank lobbying can be contrary to the public good, such as when it opposes more effective regulation or promotes questionable financial mechanisms for addressing climate change.

Banks' lending decisions influence the direction of the economy. Lending to fossil fuel industries should be weighed against much smaller investments in renewable energy. Currently the bank bailout provides the UK Government with an opportunity to press for change. Banks' provision of financial services to corrupt regimes is another concern, as is the culture of short-sighted and excessive rewards and bonuses to executives.

Governance issues are especially relevant to the financial crisis. How did internal risk controls fail so badly, and how did shareholders fail to notice systemic portfolio risk?

Miles Litvinoff noted the growing movement for corporate accountability. The concept of 'social licence to operate', well known in the extractives industries, should be extended to banks. Behaving responsibly is better for long term business, while not doing so risks reputational damage.

Questions and discussion

Issues raised by participants as questions for the panellists and as comments on the presentations included the following.

There is a need to witness to ethical business approaches that have been successful. Trustee Savings Bank had started off this way, although it had ended up being absorbed by Lloyds Banking Group – arguably an example of large companies co-opting good ideas and removing their ethical core.

Friendly Societies illustrate a dilemma for people on the political left. It is right to look to the state for provision of some services, but activists cannot wait for the government to do everything, hence the need to build a vigorous third sector.

The need for a 'community bank' or a 'green investment bank' was discussed. There are good players in this area, but they are relatively small. A paradigm shift is required to change the model, which could be brought about by setting up a national green investment bank with state support; compared with the cost of the high street bank bailouts, this would be relatively inexpensive. There is a need for more alternative economic models, both in the UK and in other parts of the world, which start from the perspective of community priorities.

Are limited liability and insolvency a 'merciful failure'? Unsecured creditors suffer. Economics and mercy have to find a way to live together. The protection afforded to business in economic failure needs to be extended to individuals; otherwise the vicious circle of poverty is reinforced. The more inequality there is in society, the worse social indicators are for everyone. There has been a loss of capacity to differentiate between wants and needs.

There is a need to mobilise and organise civic society to drive political will. None of the major political parties appear to be doing enough to address the issues of global poverty and the misappropriation of wealth.

Panel 2: Churches Investing for a Fairer Future

Victoria Woodbridge (Senior Client Relationship Manager, EIRIS): Ethical investment: a how-to guide

Victoria Woodbridge gave an overview of integrating ESG (environmental, social and governance) factors into investment strategies, drawing on her work at EIRIS (Experts in Responsible Investment Solutions). EIRIS has been operating for almost three decades, providing independent research on about 3,000 global companies and helping establish principles for responsible investment for a wide variety of clients, including faith-based groups.

EIRIS's work revealed the large proportion of FTSE listed companies that are exposed to major ethical risks, including climate change.

A series of 36 studies commissioned by the United Nations Environment Program Finance Initiative examined the link between ESG factors and financial performance. 20 showed evidence of a positive relationship, while only 3 showed a negative relationship. The evidence that ethical investment does not necessarily diminish financial returns is strong.

Victoria Woodbridge recommended the recent report *The Ethics of Executive Remuneration* from the Church Investors Group (March 2010).³ This highlights the fact that in 1970 the average ratio between highest and lowest paid employees of FTSE 100 companies was 10:1 but by 2009 the ratio had ballooned to 100:1.

On the question of fiduciary responsibility and adopting an ethical investment policy, the Scottish charities regulator (OSCR) had told Victoria Woodbridge that its policy and practice would support the Charity Commission for England and Wales's guidance given in document *CC14: Investment of Charitable Funds: Basic Principles*, section 35, which states that

'Trustees are able to adopt an ethical investment policy which will involve ... [a]voiding investments that might hamper a charity's work ... by alienating supporters.'

In conclusion, Victoria Woodbridge recommended that churches ensure first that they have an investment policy that takes ESG issues into account; and also that this policy is being effectively implemented. Fund managers need to be held accountable for their investment decisions.

Ryan Brightwell (Ethics Adviser, Co-operative Financial Services): Ethical banking: why does it matter?

Ryan Brightwell began by asserting that banks and ethics have not been traditional bedfellows and that the connection between the two is now at rock bottom, but that the Co-operative Bank can claim to be different and has not stepped back from its ethical commitments in the credit crunch. This stance is financially beneficial. The Co-operative Bank's profits increased 21 per cent in the last year; new current account openings increased 38 per cent; and the merger with Britannia led to a significant increase in the number of branches.

Ryan Brightwell explained that the bank's approach to ethics is guided by its customer-led Ethical Policy, which includes the Co-operative Bank, Smile and Britannia. The idea that some finance may be 'unethical' was taboo enough at the time of the policy's launch in 1992 that the bank's CEO later recalled being insulted at a meeting of senior bankers for raising the issue. The policy has

³ Available at www.churchinvestorsgroup.org.uk/documents

been reviewed with customers five times, most recently in 2009. It covers all non-personal financial services, i.e. business and corporate loans and deposits.

The Ethical Policy's negative screening covers human rights (including the sale of armaments to oppressive regimes), international development (including labour rights), ecological impact and animal welfare. This is detailed in some 25 individual statements, each of which had the backing of at least 90 per cent of customers who responded to the most recent consultation. The Co-operative Bank has turned away £1 billion of lending on the basis of the policy, but this acts as a selling point, and the bank has enjoyed impressive growth since the policy's launch. It has not invested in fossil fuel extraction since 1998. The Ethical Policy also includes positive screening, seeking to lend to beneficial enterprises, including through a £400 million climate change fund, a £25 million microfinance fund, and as the largest provider of financial services to UK Credit Unions.

The Ethical Engagement Policy of Co-operative Investments is also customer led and is based on a similar range of ethical issues across different businesses. The Co-operative has been much involved in the current tar sands shareholder resolutions and is encouraging individuals to lobby their pension funds to support the resolutions. While the Co-operative believes that its ethical policies are the right thing to do, promoting public policy activism and campaigning may be a more effective way of bringing about change than influencing business on a case-by-case basis. In recent years The Co-operative has asked its customers to lobby their MPs for a strong climate change bill and encouraged its members to take part in The Wave marches in December 2009. It is now showing the film *Dirty Oil* around the country in free screenings for Co-operative members.

Ryan Brightwell concluded that the Co-operative's clear policy provisions give legitimacy to its advocacy and campaigning as well as to its positive finance decisions. Its ethical banking approach provides a democratic, co-operative and mainstream alternative to general banking practice.

Alex Connor (Investment Manager, Triodos Bank): Ethical banking: investing for mission

Alex Connor outlined the nature of 'mission-connected' or 'impact' investing. This is a further step on from negative screening, placing the focus on positive-impact investing and lending, with full transparency as to what the invested money is used for. Mission-connected investing is about achieving organisational goals through the investment. Faith organisations could therefore think about the impact of their investments themselves, and this impact could be greater than what the organisation chooses to do with the proceeds of its investments.

Due to lack of awareness of this type of choice, financial advisers often present clients who want to invest for mission with difficulties concerning fiduciary duty, but such investments actually offer more sustainable and stable returns in the long term. Both Triodos and Co-op banks have performed better than any others over the past five years. Sustainability is a core part of Triodos's model. It was named the Financial Times Sustainable Bank of the Year in 2009 in recognition of the carefully run management model avoiding excessive risk. Alex Connor clarified that she would not advise putting an entire portfolio into this type of investment.

Areas covered by mission-connected investment include renewable energy, fair trade, social enterprise, organic farming and recycling. Triodos both runs in-house funds and undertakes capital raising for social and environmental businesses. Triodos is a private bank but it is possible to invest in the bank itself - a good way of expressing belief in a different way of banking. Shareholders are depository receipt holders with capped voting rights to ensure that the largest shareholders do not have undue influence, and thereby to protect Triodos's mission.

The Triodos Microfinance Fund was launched a year ago to provide access to financial services for the working poor. The rate of return is 6 to 9 per cent a year, which is reasonable, realistic, sustainable and less strongly related to global financial markets than most conventional funds. Investors include some significant mainstream players, including CCLA, Aviva and Cazenove. Triodos Microfinance has invested more than €200 million across 40 countries. There are four microfinance funds and two foundation funds. The latter are not offered to external investors and

so are able to invest in some higher risk countries, such as Afghanistan.

The Triodos Social Enterprise Fund channels venture capital into high-impact social enterprises, for example Cafédirect and Jamie Oliver's Fifteen. These projects are aimed at commercial success as well as tackling social issues. This is a higher risk fund, with investment committed for longer.

Alex Connor closed by talking about Triodos Renewables, which comprises wind farm and hydro projects operated by Triodos itself. Investors include Aviva and Rathbone Greenbank, as well as 4,000 individuals.

Jamie Hartzell (Managing Director, Ethical Property Company): Ethical property: investing in communities

Jamie Hartzell introduced himself as the Managing Director and founder of Ethical Property, a unique business model that specialises in developing and renovating buildings for the benefit of communities and vulnerable groups, and providing environmental solutions. The business has been established for 12 years, won a number of awards and provides blue chip secure asset investments.

The business focuses on social, economic and financial issues. Social benefits are provided by bringing people together within the ethical properties to provide charitable services to communities. Business ethics are central, with staff treated ethically and given a fair wage, and staff benefits an important focus. Considerations and adjustments are made for financially compromised tenants, and those that are shrinking their operations are offered smaller offices to ensure financial stability.

Staff are encouraged to reduce their carbon footprint, such as by using trains for long distance work travel and commuting, and cycling for short distances. Staff are incentivised through linking remuneration to environmental travel practices. Buildings are renovated to high environmental standards, subsequently backed up by property management and tracking the performance of the building. Education is important to maintain ecological standards, and everyday practises such as the opening and closing of windows (air flow control) are vital. Property managers play a key role in educating tenants to maintain the business ethic. All investments are profitable as well as sustainable and ecological.

Jamie Hartzell explained that properties are not just randomly bought and developed by Ethical Property but are specifically selected with the needs of the local community or particular groups in mind. This process both matches the local issues and needs and secures investors' assets by demonstrating the need for investment.

Questions and discussion

Once again a range of issues were raised by participants as questions for the panellists and as comments on the presentations.

Regarding possible ways for companies to address climate change risk, these included carbon disclosure and linking executive remuneration to effective risk management processes.

Pay ratios were discussed in the light of the Church Investors Group report on excessive executive remuneration (see above). Triodos's ratio between the highest and lowest paid is 7:1. Ethical Property's is 4.2:1; and the Iona Community's is 2:1. In France a maximum ratio of 5:1 is specified for Enterprises Solidaires, a newly recognised form of social business.

There was considerable interest in potential expansion in Scotland of the type of ethical investment that the speakers had exemplified, including the potential for Ethical Property development in rural areas and for a partnership project, perhaps with the Iona Community, in Glasgow.

Lee Coates (Chair, ECCR): Summing up

Invited to sum up the day, Lee Coates identified key insights and highlights from the presentations.

Doug Gay had strongly linked Christian values and the use of money, demonstrating a different perspective to Mrs Thatcher's dictum that 'There is no alternative [to british untrammelled market forces]'. He had emphasised walking the talk and introduced the term 'Calvinomics'.

Kathy Galloway had made many present aware for the first time of the striking fact that 60 per cent of all world trade takes place within individual multinational companies, which gives much potential for distortion of the so-called 'free trade' economy. Tax is the most sustainable source of revenue for countries, and corporate tax dodging cost lives. Full profit transparency on a country-by-country basis would have major impact.

Miles Litvinoff had shown how ECCR bears witness to what happens to communities in connection with multinational companies' operations on the ground. ECCR helps show the frequent disconnect between company policies and business impacts.

Victoria Woodbridge had stressed the importance of both people and organisations increasingly connecting their values with their money. She had shown how many FTSE listed companies are exposed to important ethical risks.

Ryan Brightwell's account of the Co-operative's ethical policies evidenced how radical they were when originally announced. While the Co-operative has turned away billions of pounds of business based on this policy, this business has gone elsewhere, raising money from other banks - which means from all of us as customers and stakeholders. The Co-operative's transparency is important in challenging the claims of other financial institutions.

Alex Connor had also stressed the transparency with which Triodos operates, the bringing together of values and money, and the real potential of sustainable forms of banking and investment.

Jamie Hartzell had described a very strong example of asset-backed social investment serving the community - a genuine 'triple bottom line' form of business.

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