

The Future of Banking: Ethical and Sustainable?

ECCR's well-attended annual open debate took place on Thursday 19 November 2009 at Friends House, London. Chaired by Lord Harries of Pentregarth (former Bishop of Oxford), the panel featured speakers (l-to-r in photo with Lord Harries centre) Edward Mason of the Church of England Ethical Investment Advisory Group, Kevin Smith of Platform and BankTrack, James Vaccaro of Triodos Bank, and Chris Hewett of the Green Alliance.



Discussion ranged over the ethics and sustainability of our banking system. Panellists and members of the audience reflected on the causes of the financial crisis, lessons to be learnt, and the nature of the changes now needed.

Rev. Raymond Singh, ECCR's Vice Chair, welcomed ECCR's patron Lord Harries, the panel and the audience to the event. Lord Harries acknowledged the timeliness and importance of the subject of the debate.

Edward Mason, Church of England Ethical Investment Advisory Group (EIAG): 'Church investors and the banks'

Edward Mason, Secretary of the EIAG, spoke on the approach of Christian ethical investors to banking. He began by stating that whilst institutional church investors have traditionally had exclusions from their portfolio (arms, for example), banking has never been one of these sectors. However, banks, and the use of money more generally, have long been an area of concern. In particular, the church has historically been concerned about usury, and has for example excluded from its portfolio companies that engage in doorstep lending.

He went on to say that we have all become increasingly aware of the potential of banking to harm well-being. The banking crisis has led to recession, the collapse of assets and economic output, increased unemployment and rising government debt, all of which increase human misery. In light of this, what should a Christian ethical investor do?

Edward retains the view that there is nothing intrinsically unethical about banks. In a world that is not yet the Kingdom of God, there is still the persistence of sin, and no human institution can claim to do the right thing all the time. However, recently there have been too many practices that have fallen short. Still, we must be careful not to lay all the blame with the banks; investors, government regulators, companies and each of us as individuals all need to accept some responsibility. All have been acting in unsustainable ways – whether through making unsustainable profits or living unsustainable lifestyles.

What should we do now? A number of key changes are needed inside banks. Banks require strong non-executive directors, and remuneration should change to reflect success at serving the long-term interests of society. Shareholders need to play a better role in holding banks accountable. Like all other investors, the Church of England investing bodies and EIAG had not foreseen the full extent of the trouble building up in the banking sector but now needed to uphold good practice and

advocate responsible lending. Church investors should also engage in the debate about appropriate government action.

Edward ended by saying that we should be realistic and ask questions from an informed position. It is not enough to invest only in micro-finance and clean technology; investors have to engage with the mainstream economy as well as the 'leading edge'. Progress will be incremental, but church investors have an important role in helping to make banking more sustainable and ethical.

Kevin Smith, Platform and BankTrack: 'Whose bank? Our bank! RBS, fossil fuel finance and the court case against the Treasury'

Kevin Smith, a climate and finance campaigner with the non-governmental organisation (NGO) Platform, which is part of the BankTrack coalition, opened his presentation by mentioning a recent visit to the UK by three indigenous Canadian women. These women had told movingly of the impact of tar (oil) sands extraction on their communities. This highly carbon-intensive process has resulted in toxic waste in their groundwater, the disruption of their traditional hunting practices and major deforestation.

Kevin described the UK as a leading source of finance for companies involved in tar sands extraction. With the Royal Bank of Scotland (RBS) now nationalised, UK taxpayers' money is heavily involved in this sector. Since its recapitalisation, RBS has also supported other controversial projects: with Vedanta, the company developing a bauxite mine and alumina refinery on indigenous peoples' land in India; with GCM, the company behind the controversial Phulbari coal mine in Bangladesh; and with companies involved in politically sensitive parts of Africa.

Whilst discussions about reform and regulation of the banks have focused mainly on financial stability, there has been little consideration of wider issues, such as sustainability. The UK government's lack of joined-up thinking on climate change is highlighted by the fact that its 84% stake in RBS has not prevented the bank from engaging in carbon-intensive investments.

Platform, along with other NGOs People and Planet and the World Development Movement, had decided to take legal action against the Treasury for allowing public money to be invested in projects linked so closely to the causes of climate change and human rights violations. Whilst a Judicial Review had been refused, the campaigners are currently appealing against this.

RBS is just one bank, but Kevin hoped that the court case would open up political space for debate, as well as acting as a catalyst for change. The banking crisis is also an opportunity to put sustainability at the centre of the way the financial system works.

Chris Hewett, Green Alliance: 'Should the UK have a Green Investment Bank?'

Chris Hewett, of independent environmental think-tank Green Alliance, highlighted the way responsible investment has changed. Whilst it used to be about what *not* to invest in, increasingly investing responsibly is about what you *should* invest in.

Chris looked at why, from the perspective of private investors, investment is not flowing into renewable energy technologies and other low-carbon developments. He suggested that this is because these sectors are considered to be too high risk. The sectors are very reliant on infrastructure capital and technological innovation; their rates of return are dependent on the carbon price; and they also depend on government policy both now and in the future, which is very difficult for investors to gauge.

It is therefore necessary for the government to take on some of these risks and thus make it easier for private investors to take them on too. The Green Alliance is calling for the creation of a publicly owned Green Investment Bank. Such a bank would hold and dispense capital on a commercial basis, but exclusively to companies and projects intent on accelerating the transition towards a low-carbon economy.

Chris suggested that such a bank is needed because of the scale of investment required, the dependence on infrastructure development, the particular challenge of such an undertaking in the context of the credit crunch, and the high risks for the private sector. He hoped that the development of a Green Investment Bank would create a pool of expertise in government that does not yet exist. It would also enable the expertise available in the City of London to be harnessed for more sustainable goals.

Many European countries have similar banks, he said, and recognition of the need for one in the UK is growing among NGOs and academics and in the City.

James Vaccaro, Triodos Bank: ‘The new accountability: a systems view’

James Vaccaro, Managing Director of Investment Banking and of Renewables at Triodos Bank, opened with reference to the CEO of Goldman Sachs saying recently that he was doing ‘God’s work’ – a comment that received an amused response from the audience. He then asked why people appear to be continuously surprised by what happens in the banking sector.

The banking crisis demonstrated how little people knew about what was happening, and little has changed. Why are we shocked about the fact that huge bonuses continue to be paid, and banks like RBS continue to fund unsustainable projects, when the people and the system they inhabit have not changed?

The system has essentially been ‘rebooted’ on the previous programme, and we should not be surprised when it produces the same results as before. James argued that the prime failure of the banking system has been to promise returns to investment that can no longer be delivered through relationship banking.

He argued that whilst there has been much talk about the responsibility of taxpayers to influence the way government-owned banks are run, in fact as shareholders we were always the banks’ owners. We all share responsibility to engage with the system.

It is important to reflect on which aspects of sustainability are built in and central to banks’ business model and core operations and which are ‘bolt-on’ additions for public relations purposes. Triodos Bank’s model is that sustainability is built in. Triodos looks both at what it does invest in and at what it avoids. It is important to keep in mind what the end point is. For Triodos this means having a vision for the future. The Abolitionists didn’t start by calling for a 10% cut in slavery!

What should we do? James argued that we should all be conscious of the impact of our financial decisions. Whilst there are a multitude of faiths and priorities about how to build sustainability, all are united by awareness of the fact that financial transactions are part of our lives and are fundamentally human. Banking is about human relationships.



We should recognise our collective power. People in the UK are generally among the richest 10% of the world's population and have the power to bring about change through our conscious decisions. We can and should support forms of business that will contribute to systemic change, such as Fair Trade.

Questions and discussion

Questions and observations from the audience, with responses from the panel, followed and covered a broad range of topics.

Invited to make the first contribution from the audience, Stephen Hine of EIRIS emphasised the point made by James Vaccaro, that we are all investors in financial institutions and all customers. EIRIS had recently carried out a poll with Ipsos MORI, which showed that relatively few members of the public can name an ethical bank or know how to find out about them, while many people do not trust banks as a result of the crisis. Stephen suggested that there is a need to demonstrate to consumers that ethical financial institutions can make a difference. He highlighted the website www.yourethicalmoney.org, an EIRIS initiative.

Attention was drawn by several audience members to the role of the broader legal framework and regulation. For example, the inadequacy of legal definitions and sanctions means that fraud and failure to fulfil corporate responsibility duties by directors are inadequately punished.

One participant commented on what they considered to be systemic corruption within the regulatory system, so that former bankers move on to become bank regulators. James Vaccaro responded with the view that laws are tools of society, and the law will tend to evolve when society's expectations change. In his opinion regulators have an important role to play.

Peter Challen of the Christian Council for Monetary Justice was grateful for the fact that the presentations ended on the issue of systemic change. We need to work for Earth jurisprudence and global consciousness, and challenge corporate hegemony and continuing usury. He suggested we should admit together that the current financial system is fraudulent as it is based on exploitation and involves gross inequality, for example in landownership.

Kevin Smith responded on the subject of corporate hegemony. The suggested Green Investment Bank would provide an alternative.

Louise Rouse of Fair Pensions proposed that we should put our money where our mouths are, invest ethically and ask more searching questions of those who manage our money, such as pension funds. The crisis demonstrated to ordinary people that we all have a stake in the City.

Edward Mason responded to comments on how change happens. He acknowledged that civil society action is very important. However, where banking and investment are concerned, there is also a need for the right market signals.

Another view expressed was that whilst it is encouraging to hear that we all have power, any such power is constrained by the lack of transparency on the part of banks, which often fail to provide answers to questions. For James Vaccaro, transparency can be hard to achieve, and Triodos, which publishes copious information about its loans and investments, finds it challenging to be as transparent as it is.

Lord Harries closed the debate by thanking all four panel speakers for their very considerable expertise in exploring a subject that will remain of real concern to all those who care about the future of our economy and society.

Report by Sunniva Taylor
www.eccr.org.uk