



# The Future of Banking: Rebuilding Trust in an Irish Context

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Ian Halstead

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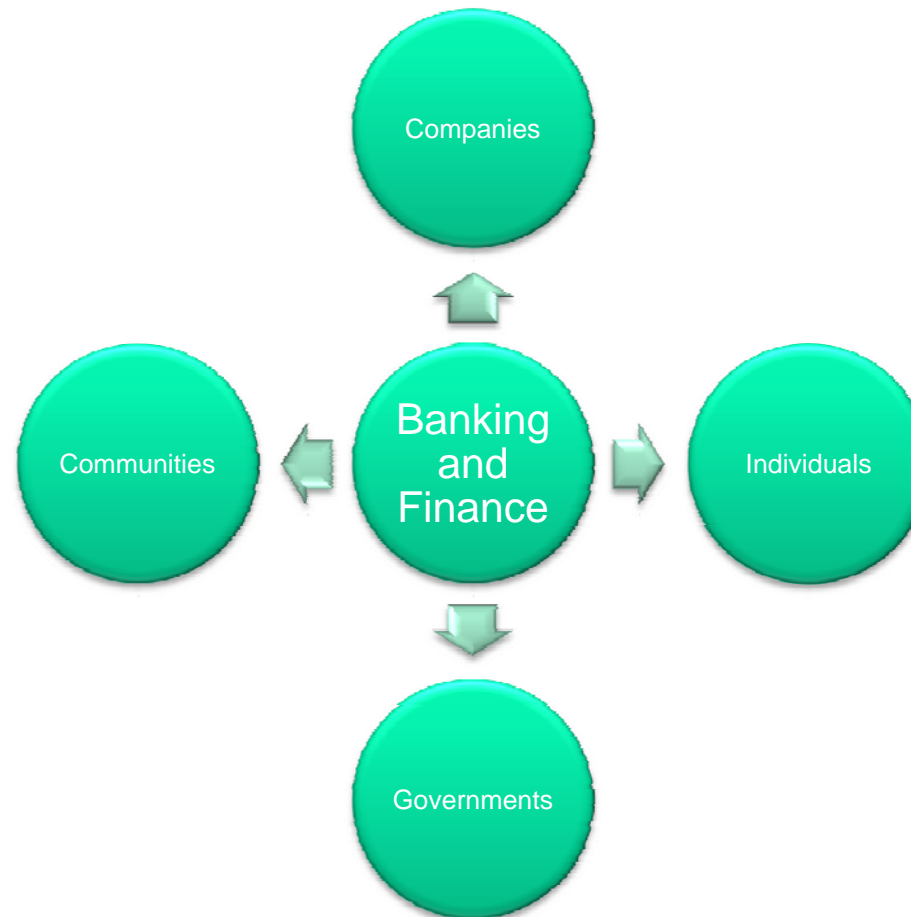
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## The Power of Persuasion

- Groups promoting higher corporate standards
  - Ethical / Socially Responsible investors
  - NGOs
  - Corporate pressure groups
- Some notable successes
  - Far greater transparency and accountability (though far from perfect)
  - E.g. Oil and mining industries
- But what about the banking industry?

# Banking: Rebuilding Trust in an Irish Context

## At the heart of the modern economy



# Banking: Rebuilding Trust in an Irish Context

## An Industry Unlike Any Other

- At the nexus of the modern economy
- Only industry with the power to devastate entire economy
- Balance sheet often greater than Gross Domestic Product of host country
- Damage to balance sheet has consequences for entire economy
- Should be held to a higher standard, but are they?



## The Power for Devastation

- Global Financial Crisis (2007 – present)
  - Direct costs of \$2.3trn (\$2,300,000,000,000)
  - Caused first severe global recession since WW2
  - 30 million jobs lost
- Causes – not a natural disaster
  - Excessive risk taking
  - Hidden conflicts of interest
  - Complex financial products
  - Failure of regulation
- International finance = international problems

# The Power for Devastation in Ireland

- Irish banking system devastated
- Economic depression (GDP fall of more than 10%)
- GDP fell peak to trough c.14%
- 450,000 unemployed
- Direct costs €70bn recapitalisation (so far)
- Government's ability to borrow
- International reputation

# Banking: Rebuilding Trust in an Irish Context

The world as we know it has changed

northern  
rock

LEHMAN BROTHERS

 **Merrill Lynch**

  
**HALIFAX** (BANK OF SCOTLAND)

**AIG**  
American International Group, Inc.

**BEAR  
STEARNS**

Particularly in Ireland

**Irish** Life & Permanent plc

  
**IRISH NATIONWIDE**  
BUILDING SOCIETY

  
**EBS**  
BUILDING SOCIETY

**ANGLO  
IRISH  
BANK**



## The Privileged Few

- Banks also enjoy unique privileges
  - Deposit protection schemes
  - Implicit (and now explicit) government support
  - Limited companies, but not subject to the same limits as other companies
  - Too big to fail
- Higher standards should be expected and delivered

# Banking: Rebuilding Trust in an Irish Context

## With Great Power...

- Given interconnection and importance, would assume high level of corporate responsibility
- Luke 12:48: "from the one who has been entrusted with much, much more will be asked"
- But corporate responsibility poor, particularly in Ireland
- Few Irish banks issue a corporate responsibility report
- Banks must work harder to justify trust placed in them by society

# Banking: Rebuilding Trust in an Irish Context

## How do we influence bank behaviour?

### Use of an ethical investment policy

- **Investment policy that**
  - Re-directs investment toward ethical companies
  - Excludes unethical companies

**POSITIVE**

**VS**

**NEGATIVE**

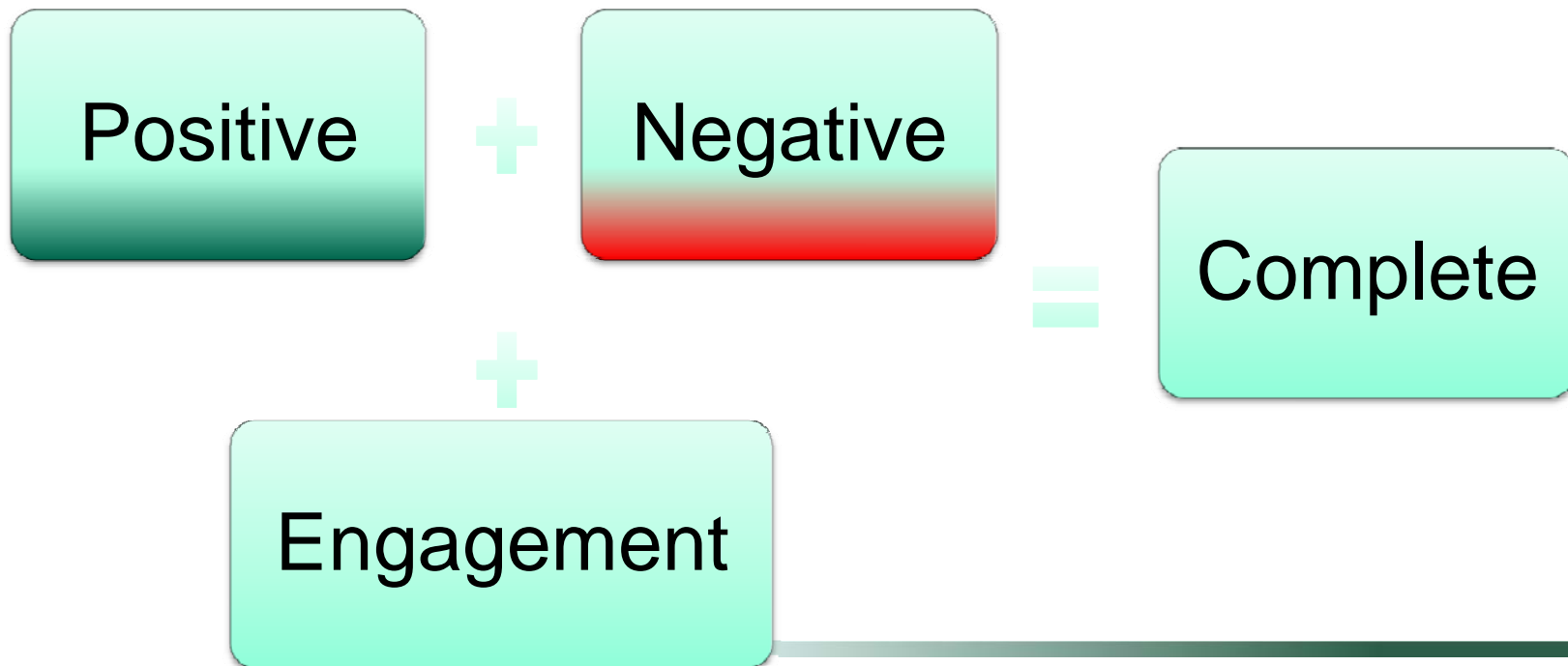
- **Engagement**
-

## How do we influence bank behaviour?

- Ethical investment policy – focus on exclusion
- Exclusion gives comfort to investor
- But impact is limited
- Banking industry 25% of world equity markets
- Exclusion policy puts at risk meeting of own investment objectives

## The Complete Ethical Policy

- Positive = include “good” companies
- Negative = exclude “bad” companies



# Banking: Rebuilding Trust in an Irish Context

## What behaviour should we influence?

- Irish banks in general have not done enough to warrant trust placed in them by society
- ECCR's report cites numerous areas for improvement
- What can Irish banks do to build trust?
  - Transparency
  - Improve risk management / independent risk committee
  - Restructure remuneration to foster culture of responsibility
  - Improve access to services for people on low-income

## Transparency is key

- Key to trust is to operate in a transparent manner
- Many Irish banks do not produce Corporate Responsibility reports
- CR report should provide info on social and environmental impact
- Difficult to gauge CR performance
- Difficult to compare to international norms
- Corporate responsibility has been sadly lacking
- Reporting on a matter encourages adherence

## What can we do to help?

- Engagement with banks
- Write to banks
- Vote at company meetings (where shareholder)
  - Very difficult process
  - Requires sizeable number of shares
  - Usually carried out by building coalitions of investors
  - Attendance at AGM
- Individual action is good but collective action more effective

## What can we do to help in Ireland?

- Request improved reporting by Irish banks
  - Corporate Responsibility report
  - Publication of Social and Environmental policies
- Organise coalitions of Irish bank investors
- Initial engagement through petition
- Request support of Irish ethical investment community
- If unsuccessful, follow up with resolution at company AGM

# Banking: Rebuilding Trust in an Irish Context

## How do we influence bank behaviour?

- Ethical investment policy – focus on exclusion
- Exclusion gives comfort to investor
- But little practical difference
- Banking industry 25% of world equity markets
- Exclusion policy puts at risk meeting of own investment objectives
- Engagement untried by “official” investors in Ireland
- Requires active investment from owner
- Engagement has greater effect

## Conclusion

- Banks need to do more to earn the trust that society places in them
- Banks are beneficiaries of enormous privileges
- Trust is best fostered by an open exchange of information
- Corporate responsibility reporting and publication of social and environmental policies would be useful step in right direction
- Petition from group of investors would raise awareness of issue with banks and seek collaborative solution to problem