

Reputation redemption for banks – the lower carbon option

Among the several themes common to the ‘end of the noughties’ op-eds by most newspapers over the past couple of months, were two topics that were rarely connected: the seemingly inexorable rise of climate change as an issue that political and business leaders must address; and the hubristic fall from grace of the financial services sector.

The climate change theme of course came to a head in the final month of the decade at the Copenhagen summit - COP15. Despite the lack of any legally binding agreement, many leading participants have since stated that they see hope for a future agreement in the fact that countries so previously distant on the issue - such as the US, China and India - were able to agree any sort of ‘Accord’, and that however legally weak, the outcome at least formally acknowledged a target of limiting global temperature rise to two degrees.

A few months prior to Copenhagen the rapid decline of the banking sector’s reputation had marked another defining moment: the UK Financial Services Authority chairman’s statement that too many of the finance industry’s activities were “socially useless”. Although Lord Turner has since clarified that ‘economically useless’ would have been a more “precise” description, his epithet was sufficiently headline-grabbing that banks may have to actively disprove it, rather than merely hope it will be forgotten.

Post-Copenhagen – an opportunity for banks

If, as most post-Copenhagen analysis seems to suggest, the way forward on international climate change policy will need to involve both a wider range of international groupings than the current reliance on the United Nations Framework Convention on Climate Change (UNFCCC), and a stronger role and voice for business, then it seems that the financial sector is being handed an extraordinary opportunity for reputation redemption.

The websites of many of the world’s most powerful financial institutions already itemise numerous initiatives that they have taken, either alone or in partnership with their peers, to promote environmental sustainability and

support the move to a lower carbon future. Ranging from reducing the carbon emissions of their own facilities, through paperless banking for customers, to supporting environmental education in schools, the dedicated researcher can build-up a worthy list of sustainable programmes supported by the biggest retail and investment banks.

But, as with any corporate social responsibility, if you can attach the word ‘programme’ or ‘initiative’ to the activity, then there is a significant risk that it is not inherently and strategically related to the core function of the corporation. In the case of banks, that is presumably to invest money to make profitable returns. Perhaps, therefore, the general public will only really start to notice banks’ commitments to ‘doing their bit’ towards climate change if they are prepared to put climate change at the heart of their choices about where to invest for profitable returns.

“Are banks prepared to put climate change at the heart of their investment choices?”

Redemption through a big, bold commitment

For several years since their launch in 2003, the ‘Equator Principles’ have provided a broad set of sustainability criteria against which project finance recipients should be assessed. Their adoption by over 60 financial institutions internationally has undoubtedly played a very valuable role in driving sound business practices within companies and projects seeking finance from these banks. Just one



example of this has been that projects proactively address community and social risk, even in countries where no such legislative requirement exists.

So perhaps, building on this successful - but limited and relatively low-key - precedent, a significant opportunity exists today for a coalition of financial institutions to develop, endorse and rigorously follow a new set of investment guidelines. This would require signatory banks to assess all investments - not just project finance deals - for their climate change impacts and risks, and encourage mitigation through energy efficiency, the use of low carbon technologies or other means.

Arguably, such commitments would indeed be 'strategic' for a bank, rather than merely another initiative at the margins, if its shareholders perceive that the health of the corporation depends on the health of the ecosystem in which it operates. If environmental instability caused by climate change, and regulatory instability caused by political responses to climate change, both create real risks for long-term investment value, then taking steps to encourage investment recipients to mitigate that risk is just good banking sense.

As with the UNFCCC protocols, the negotiation of any such guidelines would undoubtedly be complex, not least because there would be many pressure groups encouraging the adoption of a list of no-go areas for investment - as some ethical investment funds still practise

- which would be likely to include oil sand developments and perhaps any projects or facilities relying on 'non-clean' coal for their power.

Leading the way

But the door is clearly wide open for the financial sector to define its role in 'next generation' (ie: post-Copenhagen) climate change policy solutions. The Copenhagen Accord itself, non-binding though it may be, sets the goal of mobilising \$100 billion a year in public and private finance by 2020. Since the finance industry will be responsible for providing or channelling the vast majority of that sum, it seems both fair and necessary that banks not only demand clear direction from current policymakers, but also join the policymakers with a clear voice, agenda and contribution of their own.

“ Public sector scrutiny of climate change policy and the banking sector will not diminish ... perhaps for a long time to come. ”

Public scrutiny of climate change policy and the banking sector will not diminish during 2010, or perhaps for a long time to come. A clear and bold commitment from a critical mass of the financial industry to drive climate change mitigation through their investment choices could have a dramatic impact on the likelihood of limiting global temperature rise to two degrees. It could also help one of the world's oldest, largest and most essential industries to regain public respect and trust by showing that, in tackling one of the planet's greatest risks, it is both economically and socially useful.

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