

Introduction to Public Hearing on Sustainable Finance, Brussels, 18 July 2017  
By Gabriele Giuglietti, Banca Etica, on behalf of Global Alliance for Banking on Values



Thank you

We have been active in sustainable finance since 1989 and as a Bank since 1999. We are part of an alliance of 44 banks, some started as a response to the 1970s' oil crisis and some were born even decades earlier. Collectively we serve more than 41 million customers, hold up to 127 billion euro of assets, and we are supported by more than 48,000 co-workers. So I am proud to attend this important meeting.



Everything we do as bankers should start with the question: why do we finance? **Finance should serve society**

You asked for the challenges we need to face, but we have known those challenges since the oil crisis in the 1970s. Today, I would summarize the challenge as “a *fair* transition to a low-carbon economy” and it’s a very urgent problem! This requires the engagement of *all* citizens in our societies *now*, or we can simply not live up to the Paris Agreement. Social inclusion is crucial to tackle climate change, but social inclusion is also crucial for the stability of our societies.

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## What is values based banking?

- Long term and integrated **social, environmental and economic** development in communities and in wider societies we serve
- **Vibrant and diverse mix of individuals and enterprises**, work to be socially, environmentally and culturally conscious in ways that contribute to the happiness and **well-being** of our stakeholders
- Local, regional and global leaders who provide progressive and **visionary models for the banking system**
- Innovate for continuous renewal and development in the real economy whilst placing a priority on building **long-term human-based relationships, consistent with what our planet can support.**

If you didn't hear of us before, you may want to look at our website [GABV.org](http://GABV.org). You can see a wealth of publications on the many different members across the globe, all serving their societies in different ways with different business models. The members commit to the principles of values based banking, which you see summarized in this slide.

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## How do we do that?

1. **Positive value & Real economy:** Does the entrepreneur or project add positive value to society, in a way that doesn't harm other people or the planet?
2. **Adaptability & Agility:** Is the entrepreneur or project flexible enough to adapt to changing circumstances and markets and still be profitable?
3. **Resilience & Redundance:** Is the entrepreneur or project embedded in a community that will back up under stress or adverse conditions?

### How do we achieve a sound balance sheet while serving society?

All bankers assess a request for finance with two important questions:

- Can the entrepreneur be profitable in his market?
- Does he have collateral or other guarantees that mitigate the risk of this exposure?

Values based bankers start with a much more important question: does the entrepreneur, or the project, add value to society?

Our experience is, that projects and entrepreneurs that add value to society, also survive adverse times, because people want those projects and entrepreneurs to survive.

Another important difference with mainstream banking is the embeddedness of our entrepreneurs in communities, which is much more than third party guarantees or collateral. It's about a community that wants to keep a project or firm alive because it adds value to their life. It's about the social capital of our entrepreneurial system. It is about genuine credibility.

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## How do we perform?

2015	SFBs	GSIFs
<b>Real Economy</b>		
Loans/Assets	76.8%	41.6%
Deposits/Assets	81.7%	52.2%
<b>Capital Strength</b>		
Equity/Assets	8.1%	7.3%
Tier 1 Ratio	12.8%	14.0%
RWAs/Assets	61.6%	44.2%

[www.GABV.org](http://www.GABV.org)

I will not go into these figures, but in case you doubt whether values based banking can be economically profitable, visit the GABV's website for academic studies that compare the performance of mainstream with values based banking.

However, let me point at only one figure, Loan / Assets, that might serve as a proxy of banks serving the real economy. Almost 77% of the assets size in Sustainable banks concern real economy lending while the same percentage in Systemic banks is 41%. I'm sure this comparison raises lots of questions to you.



I'd like to add a personal touch to the GABV's figures and mention Banca Etica's performance in the Italian market. As you know, Italian banks are having a hard time, but I'm proud to share that the approach as applied by Banca Etica resulted in a much lower loss figure than the Italian average, which tells you that screening and monitoring of entrepreneurs and projects, in the way I described a minute ago, is crucial for the financial soundness of a bank.



For us, **social inclusion** is as important as supporting our planet. All 510 mln EU citizens must be part of the transition to a low-carbon economy, **a fair transition to a sustainable society**. So in our advice, we include people and planet and profit.

The society needs finance in the short term, the mid-term and the long term. It needs equity and debt. It needs big tickets and small tickets. And it needs governments that support innovations. So we will come with a holistic approach to this challenge of a fair transition to a sustainable economy.

### 1. Diversification of the financial system and full transparency requested from banks

A more diversified financial system is both more resilient and helps serve the community better, both in terms of services and opportunities, so we need to expand, not limit, available business models for finance.

Banks use depositors' money for lending. Full transparency on where banks invest money will empower citizens to make their financial decisions and be part of the transformation of the financial system.

### 2. Capital support for sustainable assets and surcharges for unsustainable exposures

We support the Commission's initiative for infrastructure that serves a public need, but you could use the concept of sustainable risk management effectively for many more exposures. Even more effective may be the introduction of a sustainability requirement in CRR's pillar 1.

### 3. Employee incentive systems & mandatory training

A sustainable incentive system empowers bankers looking for, and wanting to recapture, a sense of purpose. By making a just transition something aspirational, employers can expect to attract and retain the right kind of talent for their future.



For a fair transition to a low-carbon economy, all finance providers need to assess the impact of any decision they make as from now, on people, planet and profit. Values based banks have been applying this approach for four decades, survived all crises we had in the meantime, and plan to keep doing so for as long as people and the planet benefit from our services.