




International Agreements for Banks' Lending Practices Not Yet Working

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Our analysis of 213 banks worldwide shows that, for many banks, the international agreements governing their lending practices are not yet working. We found that banks receiving negative publicity due to controversies over their lending practices are often those banks that have committed to stronger governance and signed international initiatives regarding their lending practices.



Motivated in part by a desire to enhance their reputations in the eyes of environmental watchdogs and to appease a growing number of investors with environmental concerns, many banks are signing on to international initiatives, such as the UN Principles for Responsible Investment, the Equator Principles, and the UNEP Finance Initiative. These banks have committed to strong environmental and social governance, including establishing standards for environmental and social risks in their credit and loan businesses. Many are also installing audit teams dedicated to scrutinizing the banks' credit and loan businesses to ensure these standards are met. These commitments aim to improve oversight, so that high-risk lending practices can be avoided.

It is not clear why strong governance policies, such as those described above, have not mitigated lending controversies. One reason may be that signing international agreements is nothing more than greenwashing; yet, our analysis suggests that this presumption is likely not the case. Many banks that signed these agreements are known to have strong internal management practices, such as dedicated responsible investment teams and credit and loan businesses that are guided by environmental and social standards.

The Royal Bank of Canada (RBC) has faced environmental campaigns due to the billions of dollars in loans it has extended to companies involved in the oil sands.¹ RBC's experience characterizes a broader trend faced by banks: their lending practices are being carefully scrutinized, and many have been found to be financing controversial business activities, ranging from major dam projects to depleted uranium ammunition manufacturing.

Banks are likely adopting governance initiatives in a sincere attempt to mitigate controversies in which they are already embroiled, future controversies, or both. However, these initiatives are either inadequate or require more time to correct the inability of current management systems to address environmental, social, and governance (ESG) issues and impacts. In either case, banks need to pay more attention to these governance initiatives because such intense public scrutiny is becoming increasingly commonplace. Investors in the banking sector will likely become increasingly uneasy with the banks' difficulties in balancing environmental concerns and societal needs with economic opportunities.

¹Best, P. (2010, January 14). A Hostile Climate. Macleans, <http://www2.macleans.ca/2010/01/14/a-hostile-climate/>, accessed April 16, 2010

ABOUT JANTZI SUSTAINALYTICS DATA

The Jantzi-Sustainalytics dataset tracks firm performance according to environment, social and governance (ESG) themes for more than 2,000 companies from 32 countries. Included are data pertaining to supply chain practices, environmental impacts, employee relations, community relations, business ethics, and corporate governance. The data used in this report are current as of December 31, 2009 and resulted in a sample of 213 banks from 25 countries.

Jantzi-Sustainalytics is the North American regional arm of Sustainalytics. This global firm has headquarters in Amsterdam and local offices in Toronto and across Europe. The company provides environmental, social, and governance research and analysis; sustainability intelligence; and responsible investment services.