

Focus :

THE ROLE OF ACTORS

WHAT PART CAN BANKS PLAY TO SUPPORT THE DEVELOPMENT OF A MORE RESPONSIBLE ECONOMY?

ROUNDTABLE

[RA6]

Room Muhammad Yunus
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MAIN FINDINGS

Banking is a unique activity, the main essence of which is to transform money and to analyze and manage risks. The main responsibility of a banker is to comply with their tasks to the best of their abilities. However, there is a need for stricter transparency and regulation, which is brought into being by the Global Alliance for Banking on Values, with the motto, "planet, people, profit". For Cultura Bank, transparency alone will allow for trust to be rebuilt. The BPCE Group is a decentralized cooperative banking group, which decided to cease its proprietary trading and to promote the principle of "zero fiscal optimization". BNP Paribas has adopted a charter of principles in order to express its position on social responsibility. BNPP is particularly present in difficult neighborhoods as a result of its "Plan Banlieues" which was put together in 2005. For HSBC, it is important to maintain truly constructive dialogue with the regulator.

SPEAKERS

Jean Beunardeau
CEO, HSBC France

Lars Hektoen
CEO, Cultura Bank (Member of the Global Alliance for Banking on Values)

François Pérol
Chairman of the Board, Groupe BPCE
Chairman, European Savings Banks Group

François Villeroy de Galhau
Chief Operating Officer, BNP Paribas Group

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SUMMARY OF INTERVENTIONS

In 2012, four years after the financial crisis hit, how do banks see their profession and the responsibilities that come with it, and what are your beliefs regarding the new regulations which are being put in place?

François Pérol points out that banks have been strongly encouraged to reflect upon this question since 2007. He believes that the best service that banks can provide is that of doing their job correctly. In the case of BPCE, there is a need to deliver banking products and services which are of the best quality possible at the best price. BPCE brings together 36 regional banks and has 8 million cooperative shareholders. Among their main commitments, one should note the fact that they have ceased proprietary trading, while gradually phasing out current trading of this type. This therefore means that all resources are exclusively at the service of customers. The only risks taken by the bank are those taken by the customers and not the bank itself. Banks have the duty of protecting the resources of their customers, while also transforming them in order for them to be reinvested into the economy once again. BPCE is a decentralized bank. Each regional entity has its own balance sheet and operations account and is the main financial service provider for the local authorities. The spirit and culture of this bank is that of being "a bank which serves the economy". Its unique statute clearly prioritizes the medium and long term. This is the main bank of the social economy, in particular thanks to Crédit Coopératif. It is also the main bank for solidarity-based finance, socially responsible investment and microloans.

For François Villeroy de Galhau, the critical question is knowing whether or not banks have complied with their missions. Regardless of whether or not they do, they have the duty of listening to the criticism and even the rage that society may vent. However, French banks are not entirely deserving of such reproaches: banks have never lent so much to private individuals and SMEs as they did in 2012, as the figures of the Bank of France bear witness to. BNP Paribas has decided to respond to its clients but also its collaborators by publishing a Charter of Responsibility at the beginning of 2012. Banks must be accountable to society and BNP Paribas takes on as its main responsibility that of cutting itself adrift from results and dividends. Taking risks is necessary, as long as they can be brought under careful

control. **The company's return on investment (ROI) has been halved since 2007 in order to bolster the bank's own accounts, which now have twice the capital they had before the crisis.** From a social point of view, BNP Paribas is the main neighborhood bank in Seine-Saint-Denis and in other difficult neighborhoods, in particular thanks to the Plan Banlieues started in 2005. It is also active in the area of microfinance and supports social entrepreneurship through its own investment funds (particularly specialized investment funds such as Phitrust), salary saving schemes (with the 90/10 funds, with up to 10% of the fund invested in social enterprises), and investments from the customers themselves, with an accompanying need for pedagogy. However, there is a problem in matching supply and demand for these products. They require intermediation which goes beyond that of classical loans, with advice, volunteering and technical support required. For the bank, it is more an issue of motivation and loyalty than one of communication.

Lars Hektoen notes that Cultura Bank is a small bank in Norway. He stresses the fact that it is a small retail bank founded on ethical and sustainable principles. After five years of extreme criticism and financial scandals, it is not surprising that all banks are trying to improve their behavior. Even if they develop ethical principles, they continue to have their own financial objectives as their main aim. The continuous pressure to achieve better results is the main reason preventing a sustainable approach to banking. There is a need for stricter regulations since current regulations are not enough. Banks have not undergone fundamental changes since the crisis, with the exception of cooperative banks. There is a true need for banks that have written a sustainable approach into their DNA. The Global Alliance for Banking of Values and the European Federation of Ethical and Alternative Banks are good examples of what is needed. The GABV is based around **the principle of the "triple bottom line": 'planet, people, and profit'**. Retail banks must be protected and clearly separated from investment banks. **The problem of systemically important banks, or rather the 'too big to fail' banks is just as serious as before.** The main challenge in rebuilding trust lies in the issue of transparency. The role of banks is to find the right balance of risks and to sort through the different projects that may arise, while remembering that it is sometimes necessary to turn away from certain risks.

Jean Beunardeau points out that the role of a bank is, on the one hand, to hold accounts for its customers and to

carry out money transfers, while on the other hand, it is to fully comply with its role as an intermediary. There is always an inevitable risk when handling money and this always creates temptations. This risk is to be found in a number of categories within the activity: counterparty risk (or credit risk), transformation risk (corresponding to the act of converting short-term deposits into long-term lending), complicity risk (now called laundering risk or terrorism risk) and the risk of poor advice (linked to new regulations and client expectations). The role of a banker is to take risks. It is never simple to determine whether or not a credit recipient will be a responsible creditor before providing the loan. For example, how should one decide whether or not to lend to an SME when it is known that it will not be able to repay the loan, especially given that the company may indeed be put in jeopardy as a result of this refusal? One must start from the principle that you are wrong one time out of ten. Therefore, the **banker's responsibility is to remain relatively humble** and to do their job as best they can. It is also important to speak with the regulator as much as possible.

What is the role of banks in creating a more responsible world? Is the solution transparency and in particular country-by-country reporting?

Jean Beunardeau believes that when it comes to financing, banks are lucky enough and powerful enough to say no. Therefore, on the one hand there is socially responsible investment for asset management, and on the other, several initiatives in the area of bank financing, such as the Equator Principles, the Wolfsberg Principles and also the sectoral policies of each organization. As for the link with social aspects, discrimination, inequalities, etc., one should start by changing the way bankers are perceived, particularly by social entrepreneurs. Voluntary actions in these different domains should be put together and access to microcredit should be made easier. Lastly, financial education remains poor, with too many people in it for selfish reasons and a high lack of awareness on the topic.

François Villeroy de Galhau points out that there are two official lists of tax havens and legal havens. There is firstly that which is put together by the OECD and secondly that of the French Ministry for Economics and Finance which is of states and territories that are not

cooperating on this issue. BNP Paribas has withdrawn from countries such as Panama, often with great difficulties, but is still present in others such as the Philippines or Brunei, and deals with the situation by providing explanations. There are also lists put together by charity organizations, such as that of the Tax Justice Network in particular, which CCFD participates in. In its last study, CCFD considers Belgium a tax and legal haven. Since BNP bought up Fortis, the former now owns 75 bank branches in Belgium. There is therefore disagreement between BNP Paribas and CCFD on how seriously this list should be treated.

Lars Hektoen believes that each bank should fully act in accordance with its official position on fiscal optimization activities, since customers are the ones who have to deal with the consequences of this.

Finally, for François Pérol, there is a great deal of progress to be made in terms of transparency, however one thing to be said is that the more banks explain themselves, the better they explain themselves. As for the BPCE, the group pays 36.1% corporate tax and carries out no fiscal optimization at all. Regarding the debate on the different lists which exist, BPCE has activities in Switzerland, Luxembourg and Belgium. In Costa Rica it has a local office devoted to credit insurance. As for financing, BPCE provides funding for businesses such as Areva and EDF. Progress has indeed been made but more is yet to be made on transparency and pay. However, it is clear that BPCE will gain from becoming more transparent.

SUMMARY OF AUDIENCE EXCHANGE

What can be said about fiscal optimization, high-frequency trading and high incomes?

For Lars Hektoen, it is very easy to answer when talking about an entirely transparent bank. There is no problem regarding high salaries, funding projects which are disastrous for the environment, etc. François Pérol believes that high frequency trading is of no use and points out that BPCE does not practice it and carries out no fiscal optimization whatsoever. He is not in favour of a law which would cap salaries. **Jean Beunardeau** also believes that high-frequency trading is not very useful, and thinks that the authorities will

probably ban it when they discover cases of manipulation.

What is the situation regarding the ring-fencing of investment banks and retail banks? And what about the initiative on labeling financial products started up by the BPCE?

François Pérol believes that the ring-fencing of investment and retail banks is something to be desired if it is done by everyone, including in countries outside Europe. Regarding labeling, the project was brought to a halt because it was not satisfactory, but a working group is to be launched anew. **Jean Beunardeau** is of the belief that ring-fencing the two different banking sectors is neither better nor worse: every situation has its advantages and disadvantages, and what is important is being in control of the risks and procedures, and this requires stable rules.

Are bankers above the law?

For François Villeroy de Galhau, all common law legislation is of course applicable to banks, as are specific banking laws. The law is applicable whether one is a banker or any other citizen. Regarding pay, the issue of traders' pay is not entirely resolved because of the competition within the sector and among the activities carried out, which do nonetheless provide a service to customers.

What can be said about transparency and the traceability of flows at the local level?

For Jean Beunardeau, it is interesting to see that people in the South of France save more because they are older, whereas in the North, loans are more common because people are younger. Both groups therefore need one another.

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- BNP Paribas, Projet Banlieues : projetbanlieues.pourunmondequichange.com
- Fédération Européenne de Finances et Banques Ethiques Alternatives : www.febea.org
- Global Alliance for Banking on Values : www.cites-unies-france.org/
- Phitrust : www.phitrust.com
- Tax Justice Network : taxjustice.blogspot.fr/