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# Australia’s banking four pillars wobbly on sustainability record

July 17, 2015 5.29am AEST

Australian banks have been lauded internationally for sustainability, but dogged by domestic scandal. Image sourced from www.shutterstock.com

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Australian companies will soon be publishing financial results, as well as information about sustainability efforts.

Corporate social responsibility of the big four banks - Australia and New Zealand Banking Group (ANZ), Commonwealth Bank of Australia (CBA), National Australia Bank (NAB) and Westpac is a continuing topic of debate following recent scandals and reports of unsustainable activities.

Yet according to ANZ chairman, David Gonski, Australians ought to “stop bashing the banks” for being large and profitable.

This comment should put civil society on guard.

A recent study by the Centre for Corporate Governance at the University of Technology Sydney, part of the UNEP Inquiry into the Design of a Sustainable Financial System, examined self-regulatory and voluntary sustainability efforts of the world’s largest banks, in partnership with Catalyst Australia which scrutinised the efforts of the big four Australian banks.

## Sustainable finance

The “four pillars” of the Australian banking system are a dominant part of the Australian economy: the four banks are featured in the top five of the ASX 200 and hold A$522 billion of Australian household deposits, equal to one-third of Australia’s gross domestic product.

In the words of David Murray, former CBA boss and chair of the Financial System Inquiry: “banks fund most of the assets in the economy – whether it’s businesses, governments themselves, homes or projects, whatever else.”

This market dominance results in great power and great responsibility. As banks provide the majority of external finance to companies and governments, they can influence practices: bank lending potentially has more impact on sustainable enterprise than investment and divestment on the stock market.

Banks can thus wield their enormous market power to support sustainable activities, while their actions can likewise contribute to detrimental behaviour.

## Conflicting images

The examination of the sustainability efforts of Australian and international banks reveals a schism between symbolic and substantive sustainability efforts.

At the 2014 World Economic Forum, Westpac was named the most sustainable company in the world. ANZ has been named as a leader in the global banking sector by the Dow Jones Sustainability Index, a major reference point for sustainable investors, six times in the last seven years, while NAB and the CBA have likewise been recognised for their sustainability performance.

Yet despite being lauded for their sustainability efforts, the public image of big Australian banks have suffered in the wake of dodgy financial advice scandals, disputed fees, and allegations of rate-fixing and insider trading.

Banks have drawn the ire of environmental activists by extensively funding the fossil fuel industry, coal mining along the great barrier reef, and nuclear arms manufacturing. Oxfam Australia claims the Big Four are also backing agricultural and timber companies accused of land grabbing in developing countries.

As a result, public confidence in banks is low: according to a national survey, part of the research by Catalyst Australia, 76% of respondents believe that banks put profits before their social and environmental responsibilities.

## Regulation and Supervision

In 2005, the Government launched an Inquiry into Corporate Responsibility and Triple Bottom Line reporting. It examined the extent to which the Australian legal framework encourages or discourages company directors from considering interests of stakeholders other than shareholders, the suitability of voluntary sustainability measures, and the appropriateness of reporting requirements.

The Committee found that legal amendments were undesirable, as it deemed it “not appropriate to mandate the consideration of stakeholder interests into directors’ duties”.

Furthermore, the Committee recommended that sustainability reporting should remain voluntary, fearing that “mandatory reporting would lead to a ‘tick-the-box’ culture of compliance”.

In the aftermath of the global financial crisis, financial sector regulators were pushed to exercise more supervision and be less trusting of self-regulatory efforts. Consequently, in 2013 the Government launched the Financial System Inquiry. Regrettably, the terms of reference did not address social and environmental sustainability and risks in the financial sector.

The readiness to increase supervision to avoid financial risks is not matched by a similar willingness to supervise and regulate the social and environmental risks caused by the financial sector. This emphasis on voluntary efforts is problematic, as the study by Catalyst Australia shows that only 26% of the Australian public believe banks will behave ethically and responsibly if they self-regulate.

## Bridging the governance gap

While many Australian and overseas banks have successfully shaped sustainable corporate imagery, the research by the Centre for Corporate Governance and Catalyst Australia finds that self-regulation permits facts to be obscured and leaves social and environmental matters peripheral to business strategies.

The assurance that banking activities are based on sustainable principles requires public monitoring of compliance and performance - as US litigater Louis D. Brandeis famously said:

> *“Publicity is justly commended as a remedy for social and industrial diseases. Sunlight is said to be the best of disinfectants; electric light the most efficient policeman.”*

In order to accomplish this, directors’ duties ought to be reformulated to include social and environmental responsibilities, sustainability reporting requirements should be redefined and further embedded in corporate governance systems, and social and environmental risk assessments should apply the precautionary principle, shifting the burden of proof to actors that potentially cause harm.

Robust governance, regulation and supervision should not be seen as measures that restrain innovation or entrepreneurship, but rather as instruments that can help to restore trust, and ensure that banking activities are conducted openly, fairly and sustainably.

Banks   Corporate Social Responsibility