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Will There be Such a 'Think' as Responsible Investment Banking One Day?

BY KAREN WENDT

In this article, Karen Wendt, the editor of *Responsible Investment Banking: Risk Management Frameworks, Sustainable Financial Innovation and Softlaw Standards*, gives our readers an introduction to her latest body of work which is a collection of authoritative essays on the role of investment and finance in the creation of climate – friendly markets, positive social impact and fundamental ethical values in business. The essays give structured overview of the main investment banking initiatives, softlaw standards, risk management and impact investing strategies.

The major resource in investment and banking besides efficient IT systems and competent staff is trust. Trust is the fuel investment companies run on – and if the source runs dry, the vital role of this otherwise invisible source of fuel becomes very apparent. The banking market message has been: "Give me your money, I will care for it, keep it in good custody for you and invest it in a profitable way". Now with negative interest rates in many countries and banks shifting business models the question is: Does society still believe this message to be true?

There is no doubt about what has prompted this anthology on "Responsible Investment Banking": the international financial and economic crisis since 2008. The crisis has fundamentally changed the perception of banks and the role of the financial industry and the crisis has prompted harsh austerity programmes in many countries. The contributors to this anthology *'Responsible Investment Banking'* recognise the need to face the consequences of failures in investment banking, dig deep to understand the root causes and go beyond the current mainstream concepts of investment and banking. They advocate that another future is feasible, a future that is sustainable, innovative, ethical and profitable while supported by sound governance and by communities. They show that investment and banking can be constructive in creating solutions to the global challenges ahead. The flow of money can be incentivised to flow to investment and finance transactions that create positive impacts, while negative impacts can be minimised or mitigated. A lot of experts in the field have recognise that the current business model is on the cards. Future oriented leaders in the field of investment and banking are figuring out how trust can be re-established and overcome crisis.

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Future focussed leadership and reforming of the finance and investment culture are recurring themes in the anthology. Contributors also show how one can use Environmental and Social Governance criteria (ESG) as innovation indicators and turn compliance into innovation. The frameworks for doing this

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already exist and their number is growing. The triangle of return, liquidity and risk is currently complemented by a fourth component: Impact! An increasing number of investors want to understand the impact they create to society through investment and finance. The anthology is well placed at the interface of excellent practitioners and academia with all contributors writing on the basis of extensive professional implementation, experience or avant-garde research findings. The anthology is equipping business leaders, investors, academics and practitioners with the frameworks, tools and means to understand, qualify and sometimes quantify how their actions contribute to social welfare, while keeping returns and innovation up to speed. The emerging generation of investors is likely to seek achievement of social objectives in addition to financial returns. And this is what the anthology is intended to do: An anthology written for practitioners, researchers in the field and the next generation. It raises awareness levels, maps out what is available and supports the transformation of the industry into a more impact driven approach. It also overcomes the old dichotomy.

One may ask: Aren't all investments impactful? Given that investment is the engine of business growth and economic expansion. While true, not all investing intentionally seeks to create positive social or environmental value from the outset, before the investment is made. Many may neglect the cash-flow, reputational, operational and legal risks that stem from the non-technical context factors in which an investment is embedded when external context factors are not properly analysed. But a lot of risk may also lie with internal organisational models, management systems and governance. Therefore quality management systems, systematic stakeholder analysis and engagement organisational learning have to be organised and implemented in a systematic effective way. International benchmarks and standards have developed excellent criteria, frameworks and approaches, so that not every company has to reinvent the wheel. Some degree of social or environmental value may be created in traditional investment as a result of all investing, but it is not always intentionally sought.

Responsible Investment Banking refers to a broad array of investment and finance practices – including internationally recognised frameworks and standards like the Equator Principles, the Principles for Responsible Investment, the ISO 26000, the OECD Common Approaches, the IFC Performance Standards, the UN Guiding Principles for Human Rights in Business, the ILO Standards and many more that are socially responsible and sustainable. They all recognise – that the generation of long-term sustainable returns is dependent on stable, well functioning and well governed social, environmental and economic systems and a shareholder and stakeholder value society. It offers approaches for screening of investments for both negative and positive impact to society or to the environment. At a minimum it refers to the active incorporation of ESG criteria into the investment and finance decision.

In most cases however, Responsible Investment Banking still prioritises financial returns above social or environmental returns. A lot of examples in the anthology demonstrate that a dual objective of social/environmental outcomes and financial returns can sometimes be conflicting, but many times create alignment of interest. So if there are conflicts between both objectives, this should be a red flag and pinpointed to the disconnect and missing alignment of interest or shared values. The anthology offers a number of concepts on how these disconnects can be turned into treasures and additional value creation.

The old paradigm of a trade-off between responsibility and return is breaking away. Investing and finance does not imply a trade-off between social outcomes and financial returns, but rather a dual objective which supports the simultaneous creation of both social and financial return. In certain instances, social objectives may in fact create long-term sustainable financial returns. The anthology therefore supports the transition of the grant system into an impact conscious and impact driven investing and finance philosophy, offering market based financial solutions to global challenges. It demonstrates that the ecosystem of social entrepreneurs, responsible investors and financiers is already there and international voluntary frameworks build a rocket solid foundation to build on when moving to a dual objective, in particular as the frameworks are in the process of converging into some form of Global Administrative Law. CSR has a value when it is successfully embedded into the fabrics of an institution or entity, the strategy and culture, embedded into the products, the value chain, creating solutions to global problems through innovation.

Climate Bonds are a good example of a product with positive effects. They help create climate-friendly markets, and the conservation of ecosystems. They offer market-based solutions to climate change. The market appetite is there, the bond issue being usually oversubscribed by Institutional Investors. A lot of more sophisticated structures for shifting the market to climate friendly products are explained in the anthology, most of them developed with the help of the World Resources Institute.

Another pressing issue is to deliver market-based solutions to poverty. Among others, the Emerging Markets Private Equity Association demonstrate with a number of cases in *'Responsible Investment Banking'*, that one can treat people earning between 2 and 10 dollars a day as customers, offering them market based solutions to poverty. These solutions are currently financed with venture capital or equity and they also prove to be financially profitable.

The anthology concentrates on approaches that are tested and implemented. Therefore it discusses how to develop products and organisational structures that are aligned with the requirements of international frameworks like the Principles for Responsible Investment (PRI), the Equator Principles (EP) and the quality management certifications schemes based on ISO and OSHAS standards.

Why is the anthology coming out now? "The world is becoming multipolar," writes Nano Kleiterp, CEO from FMO, the Dutch development Agency in his contribution. "The world is changing rapidly, but policy frameworks do change slowly". Our future will be based on collaboration and reciprocity. The times where the rich countries dictated what is the norm are over. Fast growing economies are sitting at the negotiation table and having their say. Public private partnership is the most effective lever to combat poverty in the world and leverage public aid. Therefore, *'Responsible Investment Banking'* is resolutely global in perspective. It is full of examples from all over the world on the application of principles with accounts of why they are indispensable, and need to be put into practice. It is resolutely global as well in collecting best practice and innovation approaches to make the transition into the multipolar world as smooth as possible.

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Investment and banking can help society to resolve challenges that have been described by John Beddington, former chief advisor to the UK Government as "the perfect storm". The world population is increasing from 2.5 bn to 9.5 bn within just 100 years (from 1950 to 2050), access to food, fresh water and infrastructure are on the cards. We see growing urbanisation and climate change as pressing issues while the 2013 Carbon Tracker Initiative's Report reports on wasted capital and stranded assets.

We use more resources than we have to satisfy the needs of a growing population. This challenge provokes new ways of living and a redefinition of value chains for consumption, production and distribution to increase resource efficiency. Investment and banking – as financial intermediaries – finance economy and can help optimise capital allocation to take a stance

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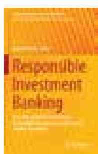
and help focus on a resource efficient triple bottom line approach, that values the impacts investment and finance creates to address the challenges. Value chains of production and consumption will have to change and innovative means put forward that the public and private sector could pursue collectively to foster climate friendly solutions, products and climate friendly markets. At the same time banks and fund managers can focus on social investment in public private partnership schemes, such as social bonds, pay for performance schemes, climate bonds and foster the creation of new resource efficient value chains.

The Doughty Centre for Corporate Responsibility has identified sustainable development as one of the emerging business benefits. Engendering capital flows to projects, companies, regions and societies that maximise positive impacts for the population with minimum resource usage and with sound business and ESG practices. The industry has arrived at an inflection point. A different world is possible. This spirit is appealing and promising; it creates a self-amplifying power. Innovation is what Wall Street Stars are made of and innovation can be achieved through ESG and responsible investment and banking. There could indeed one day be such a thing as "responsible investment banking".



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About the Author

Karen Wendt, Founder of Responsible Investment banking Network. Karen Wendt is head of the Equator Principles Team of a top tier global bank, where she introduced the Equator Principles, an environmental and social risk management framework. Karen started her career at Deutsche Bank after achieving her Bachelors Degree from the University of Regensburg and working for the European Commission. She holds an MBA from the University of Liverpool. Karen Wendt has been one of the initiators of the Equator Principles and is a Member of the Steering Committee of the Equator Principles Financial Institutions Association since its inception. She has undertaken research on investment banking culture, the role of alignment of interests and values and the impact of leadership behavior on trust and value identity. She has more than 20 years experience in investment banking. In addition she is editor of scientific books on the subject of responsible investment banking and positive impact investment and finance.