

Answers of the European Financial Congress¹ in relation to the UNEP Finance Initiative² Consultation on the Principles for Responsible Banking³

The Principles for Responsible Banking (*PRB*), hereinafter the *Principles* or *PRB*, were developed in 2018 by 28 banks, members of UNEP FI. The *Principles* provide a general framework for shaping a 'sustainable' banking system in which the business strategies of individual banks adequately address environmental and social issues. The *Principles* constitute global (general) guidelines to allow each bank – irrespective of its model of operations, size, environment, or business model – to make them more specific, while taking into account the possibilities and limitations they offer.

In order to obtain opinions about the *Principles for Responsible Banking*, the European Financial Congress used 10 consultation questions published on the UNEP FI website and formulated two additional specifying questions so as to get a more detailed picture of the experts' opinions. UNEP FI consultation questions comprised 6 questions for all experts and 4 questions intended only for banks. In each part, the EFC included 1 additional question.

The parties invited to participate in the consultations included a group of key experts from the Polish financial sector. They were sent the consultation questions, the UNEP FI consultation material with the *Principles for Responsible Banking* and the reporting template. The experts were guaranteed anonymity.

Responses were received from 31 experts representing:

- banks (15 responses from leading commercial banks, mortgage banks, a development bank and cooperative banking groups),
- regulators (3 responses),
- research community (7 responses),
- consulting firms and independent experts (6 responses).

After compiling, the opinions and responses to the consultation questions were sent back to the experts with a request to:

- point to the fragments of other experts' responses/opinions which, in their opinion, were of particular significance,
- point to the opinions in other experts' responses that they disagreed with,
- modify or complete their own opinions, if necessary.

Based on the replies and comments received, a summary opinion of Polish financial market experts on the draft global *Principles for Responsible Banking* was prepared and submitted to the UNEP FI.

¹ European Financial Congress (EFC – www.efcongress.com). The purpose of the EFC is to promote debate on how to ensure the financial security and sustainable development of the European Union and Poland.

² The United Nations Environment Programme Finance Initiative (UNEP FI) is a partnership established between the UNEP and the global financial sector. Its members include financial institutions that have signed the UNEP Statement of Commitment by Financial Institutions (FI) on Sustainable Development. UNEP FI members currently include 242 institutions from all over the world, including: 138 banks, 69 insurance companies and 35 investment firms.

³ <https://www.unepfi.org/wordpress/wp-content/uploads/2019/05/PRB-Consultation-Document-11-Web-1.pdf>

RESPONSES OF THE EUROPEAN FINANCIAL CONGRESS TO THE CONSULTATION QUESTIONS OF THE UNEP FI

i. For all participants

Responses to questions 1–6 are summary opinions of 31 key experts from the Polish financial market

Question 1. Are there any gaps or elements that the *Principles* do not cover? How should this be addressed?

In the Polish financial market, both banking and non-banking experts show interest in the UNEP FI and support for the introduction of the *Principles*. The initiative is viewed positively and a great significance of the *Principles* for improving the functioning of banks as well as for building their positive image in the society is emphasized.

The opinions have indicated gaps and other important issues that the *Principles* fail to cover. According to the experts, the *Principles*:

- are overly focused on, or even limited to, environmental and social issues, in isolation from market economy mechanisms which make managers prefer value based management and, consequently, give priority to financial goals,
- overlook the issues related to fighting moral hazard, which has dominated the world financial system,
- fail to adequately cover the issues of the internal functioning of banks, including labour issues – it is suggested that the *Principles* should be supplemented with international workplace health and safety standards (international work standards).

Question 2. Do the current target setting requirements provide an effective mechanism for driving banks' alignment with and contribution to society's goals? Do you see elements in the target setting requirements or the *Principles* more broadly that could be strengthened/introduced to drive change even more effectively?

In the experts' opinion, the *Principles* include too many elements and requirements, which may discourage banks from implementing them – this in particular applies to local banks. When reading the *Principles*, it seems that they are intended for large organisational structures, i.e. regional and global banks.

According to the experts, in order to ensure more effective implementation of society's goals, the *Principles*:

- should apply on a comply-or-explain basis,
- should include an annex in the form of a guide/instruction on defining and reporting goals/KPIs,

- should not include time-limits for banks to determine and publish goals – relevant decisions in this respect should be taken by the banks themselves.

Question 3. Does the Implementation Guidance provide clear guidance on what is expected from banks and on how to implement the *Principles*? If not, what gaps do you see and how could they be addressed?

According to the experts, the *Guidance*:

- is definitely better adapted to the specifics of large global banks than those of local banks,
- is very extensive and should be presented as an easy-to-understand infographic,
- should specify the methods and means of determining the bank's impact on its environment (include uniform standards),
- needs to be supplemented with information about the terms of report verification by UNEP FI (e.g. assessment criteria or costs for the bank, if any),
- should place more emphasis on the means of implementation of the *Principles*, while providing practical examples (in particular, based on the practice of local banks),
- needs to specify how substantial support from the UNEP FI will be organised (it is not clear whether it will be offered at a national level, e.g. through access to a consultant from a national UNEP Centre or from another coordinating institution, which is important to local banks).

Question 4. Is the *Reporting template* clear about what banks are required to report on?

A vast majority of experts have agreed that the *Reporting Template* is clear, understandable and provides for sufficient flexibility of reporting. However, concerns have been raised that responses to some questions in the *Template* (e.g. items 2.1; 4.1.) might violate the principle of secrecy. Hence, the comply-or-explain approach was proposed.

Question 5. Is the information required in the reporting template helpful for assessing a bank's sustainability performance? Is there any additional information that should be requested for this purpose?

A vast majority of the experts have agreed that information in the *Reporting Template* is sufficient to assess banks' sustainability performance and requires no changes. The experts suggest that for reporting scheduled activities (not disclosed in other reports), banks should be allowed to include an additional file or a comment containing more than 50 words.

Question 6. Please provide any additional comments, inputs and suggestions for changes. This could include suggestions for additional reference to relevant resources to include in the Implementation Guidance.

The experts suggest:

- eliminating doubts as to interpretation by providing uniform definitions of basic terms for all banks,
- setting up an Internet report repository where non-anonymous bank stakeholders could make comments and remarks on available reports; and publishing such comments and remarks following verification (e.g. by UNEP FI),
- specifying the language(s) in which information would have to be reported (which is significant from the point of view of local banks, for whom the requirement to have the reports translated would constitute an additional burden),
- extending the support offered by the UNEP FI to the signatories, i.e. ensuring access to such support to the entities considering the implementation of the *Principles*,
- specifying an expected form of reporting for multinational banking institutions in greater detail.

ii. For banks only:

Responses to questions 7–10 are summary opinions of experts from 15 banks operating in Poland.

Question 7. Are these *Principles* in line with your bank’s aspirations and are they an effective framework for guiding and accelerating changes in your bank? If not, what would you propose changing?

All banking experts have confirmed that the *Principles* are in line with their banks’ aspirations and 9 of them have explicitly confirmed that the *Principles* accelerate changes. They also emphasized that the *Principles* are not only in line with their aspirations, but even go beyond the bank’s policy and objectives in this respect, and are also adequately prepared to be incorporated into the bank’s policy.

The experts have suggested that the time-limits for implementing successive stages of the *Principles* should be extended, in particular for local starter banks.

Question 8. Do the *Principles* allow for sufficient flexibility for banks in different contexts, with different business models and at different points in their sustainability journey? If not, what provisions would you suggest?

All banking experts have estimated that the *Principles* allow for sufficient flexibility for banks to pursue different business models, while promoting sustainable development.

Question 9. Do the current requirements and formulation of the *Principles* pose any challenges that would deter your bank from endorsing and ultimately signing up to these *Principles*? If so, what are they and how would you propose to address them?

All banking experts have confirmed the attractiveness of the principles for their banks, with:

- 3 banks clearly declaring their intention to sign the *Principles*,
- 2 banks making the signing of the *Principles* conditional on the decision of their entire banking group.

In their comments, the banking experts have indicated certain inconveniences, in particular:

- the need to meet a range of requirements, especially the need to reorganise management,
- a limited database and difficulties in analysing potential costs and benefits of the *Principles* implementation,
- no benefits for banks implementing the *Principles*, such as promotion among domestic and foreign investors,
- no freedom to adapt transitional periods in the process of implementing successive stages or elements of the *Principles*.

Question 10. How is your bank likely to respond to this initiative? Please select one option below:

The banks have selected the following options:

- **3 banks** – *Engage early on and support the Principles/become endorsers*
- **5 banks** – *Discuss endorsing internally and see if the Principles are a good fit*
- **5 banks** – *Observe for a while and see in a year or two if becoming a signatory is the right thing for your bank.*

In this option, two banks have made the signing of the *Principles* conditional upon certain factors. The first bank has made it dependent on expanding the scale of its operations, and another bank – on being provided with a relatively long implementation period to allow for adapting the pace of implementation (as regards the establishment of procedures, expansion of monitoring functions, assessment of the impact on bank's operations or adjustment of business strategies) to the bank's organisational and technical capabilities.

- **2 banks** – *Other – please specify*

The bank agrees with the idea behind the *Principles*, yet it sees the barrier in the form of technical and organisational constraints. However, it does not exclude the implementation of the *Principles* after the current constraints have been eliminated or the rules of implementation of the *Principles* in cooperative banks have been specified.

The bank supports the *Principles*, but believes that they are in line with other initiatives, such as *Sustainable Finance and Circular Economy*, in which the bank is already involved.