



## **Briefing: banks and finance**

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Regulation and reform

## Resistance to rules

By Oliver Wagg

**Resistance to bank regulation within the sector was strong in the lead-up to the successful US Senate banking reform vote in May, despite public furore over Wall Street excesses**

The recent US Senate grilling of Goldman Sachs executives neatly reveals a root cause of the US financial crisis. After senior executives at the Wall Street icon were compared to bookies, Republican senator John Ensign said: “In Las Vegas most people know that the odds are stacked against them. On Wall Street they manipulate the odds while you’re playing the game.”

This alleged market manipulation is at the centre of a Securities and Exchange Commission lawsuit that alleges Goldman defrauded clients by marketing a subprime mortgage product it had bet against. In its defence the bank called the lawsuit “completely unfounded”, adding: “We did not structure a portfolio that was designed to lose money.”

The hearings highlight the heated debate over the role of banks and whether speculative, highly risky activities should be combined under the same roof as the stewardship of the public’s savings and loans. Should banks be charged with safeguarding their clients’ interests or make money for shareholders and executives, some of whom are taking home billions in bonuses? As Goldman Sachs chief executive Lloyd Blankfein bluntly put it in a January testimony to the US Senate: “We are not a fiduciary.”

Regulators have very different ideas. US senators responded to public calls for accountability in the financial sector by approving in May a far-reaching financial regulatory bill. Announcing the breakthrough – described as the biggest overhaul of the banking sector since the 1930s – US president Barack Obama lambasted Wall Street for resisting reform.

“The recession we’re emerging from was primarily caused by a lack of responsibility

*“On Wall Street they manipulate the odds while you’re playing the game”  
John Ensign, US Senate*

and accountability from Wall Street to Washington,” Obama said. “That’s why I made passage of Wall Street reform one of my top priorities, so that a crisis like this does not happen again.”

Throughout what had been a very bumpy passage through Senate, which followed the December passing of the bill by the House of Representatives, Democrats fended off most major changes sought by Republicans and some members of their own party. They were eventually joined by

three Republicans in a 60-40 vote to end debate on the bill.

Michelle Chan, California-based director of Friends of the Earth’s Green Investments programme, says that members of the US Congress, Republican and Democrat, want to look like crusaders for reform.

“And of course the electorate is very keen to rein in the excesses on Wall Street,” she says. But she suggests there are huge questions as to whether and how the ultimate financial reform package which emerges out of the Senate will have enough clout to essentially prevent a repeat of another financial meltdown.

### Splitting up is hard to do

The passage of the bill through the Senate triggered a conference between delegates from the Senate and the House to reconcile their differences on the legislation to form one compromise bill. That bill would need to be approved by both chambers by simple majority votes before going to the president to sign into law.

Both the final versions of the bills require most derivatives to be traded through third parties, with the intent of increasing transparency. But the Senate bill clamps down on banks finding exemption from some of the new rules.

The reform measures aim to rein in big firms’ use of high-risk practices blamed for the global financial crisis and put an end to taxpayer-funded bailouts of banks previously deemed “too big to fail”. They also aim to curb the sector’s largely unregulated derivatives business and include several measures aimed at increasing the transparency and accountability at the US Federal Reserve.

Friends of the Earth’s Chan attributes the banks’ lack of enthusiasm for reform

## The Volcker Rule

US president Barack Obama proposed in January that “banks will no longer be allowed to own, invest, or sponsor hedge funds, private equity funds, or proprietary trading operations for their own profit, unrelated to serving their customers”.

Named the Volcker Rule, after former Federal Reserve chairman Paul Volcker, the proposal means two major reforms to banks:

- Derivative products should be sold and cleared through conventional exchanges, which are transparent and can be properly supervised.
- A new resolution regime for banks, to replace “too big to fail”.

Volcker is not advocating a return to Glass-Steagall – a bill that separated investment and commercial banking activities – or a stipulation that retail banks should be prohibited from engaging in investment banking. And the impact of the new US legislation remains to be seen.

to the profit-making potential of the sector’s over-the-counter (OTC) derivative operations.

“OTC derivatives remain a very large profit centre at many banks, even during the downturn,” Chan says. New rules – including the so-called Volcker Rule (see box) – may be “very scary to the banks because [the changes represent] a challenge to their business model.” The derivatives bill that came out of the Senate may require banks such as Citigroup, and Bank of America, now that it’s part of Merrill Lynch, to spin off their derivatives trading.

### Bailouts, but little duty of care

Keen to prevent systemic financial market meltdown, governments acted swiftly to buy stakes in failing banks during the fallout of 2008. But recent data and government hearings indicate the resulting state ownership failed to spur business recovery or foster improved environmental and social stewardship.

A recent US government report revealed the biggest Wall Street banks actually slashed their small business loan portfolios by 9% between 2008 and 2009, more than double the rate at which they cut their overall lending.

“Big banks pulled back on everyone, but they pulled back hardest on small businesses,” says Elizabeth Warren, chairwoman of the Troubled Asset Relief Program oversight committee, charged with managing the US government’s financial stabilisation package effort.



Too much playing the market

Meanwhile, politicians and campaigners alike have taken aim at the UK government’s lackadaisical approach to environmental, social and governance (ESG) stewardship at the newly acquired financial institutions.

A UK select committee hearing into the banks’ use of taxpayer money in March saw MPs quiz officials from the Treasury and UK Financial Investments (UKFI) – the government-owned corporation set up to manage these stakes. The sometimes stormy session revealed the government had placed no environmental or sustainability conditions on the operations of the banks, other than limits on executive pay and lending.

UKFI officials struggled to justify direct intervention in a government-owned bank’s business other than if it took any

### *Regulators are failing to tackle the causes of the financial crisis*

actions to harm its value.

Asked if there was anything that a bank might do in terms of environmental sustainability that might actually prompt UKFI to take some action, its chief executive, Robin Bundenberg, said: “It comes down to the impact on value and that is quite a broad issue because where a company’s reputation is brought into question, that often does have a very direct impact on value.”

Campaigners say the government is missing a big opportunity. UKFI, at the minimum, should follow standard good practice for institutional investors, says a

coalition of NGOs including Platform, Friends of the Earth and War on Want. This involves such action as behaving as an active owner and incorporating environmental, social and governance issues into ownership policies.

### No end in sight

Investment specialists warn that by tackling the symptoms, regulators are failing to tackle the systemic causes of the global financial crisis, raising the chance of further hits on the world’s markets and economies.

Towers Watson’s global head of investment content Roger Urwin says risk-taking in the banking sector traditionally has been exceptionally high. He argues that the banking industry is obviously chastened by the financial crisis, is rebuilding capital to a certain degree and reducing certain types of risk. In other words, “it is in a better place right now”. But the degree to which banks will accept that regulatory reform is on balance desirable is, he says, small. “There’s no zeal.”

Urwin, who participates in the Network for Sustainable Financial Markets, says risk and uncertainty are endemic in today’s financial system. “We live in a more tightly coupled, interconnected financial world.” And being tightly coupled means the markets are predisposed to accelerating forms of crisis or financial accident.

“Narrowly defined, the global financial crisis was over in the summer of 2009. Broadly speaking the global financial crisis continues, because all we have done is sort out some of the symptoms and not some of the systemic causes,” Urwin adds. ■



STUDIOPHOTO/BANCO

Banks and bankers

## The search for brand revival

By Oliver Wagg

**Some financial institutions have taken the opportunity of the banking crisis to re-evaluate policies and business models. But is there really a change in culture?**

Trust is everything in banking. The global financial crisis of the past three years has jeopardised that most valuable of commodities. The hard-won reputation of the financial sector dived to all-time lows in the wake of the credit crunch. And now – even with an economic recovery under way across most western economies – it may remain irrevocably damaged.

Many banks have resolutely set themselves on a course for recovery by developing and strengthening the corporate social responsibility and sustainability initiatives for which they were once so well known. Some have developed brand new programmes, while opening their vaults to customers and shareholders in a new spirit of transparency.

But few have radically changed the way they do business, which suggests that future systemic financial breakdowns could be inevitable.

Financially, banks are certainly on the road to recovery in the UK, one of the economies hit hardest by the fallout of the banking crisis.

Royal Bank of Scotland, bailed out by the UK taxpayer, reported a first-quarter loss in May, but it was the only major UK financial institution to do so. HSBC joined Barclays and Lloyds Banking Group in posting healthy profits.

In the UK, the credit crunch was quickly followed by a rise in customer complaints. Now high street banks face possible fines after UK's Financial Services Authority said in April that it was formally investigating the sector for mishandling customer complaints.

### Serious complaints

The FSA hasn't named names, but says five banks have weaknesses processing grievances after reviewing lenders responsible for 70% of complaints it received.

Peter Vicary-Smith, chief executive of consumer advocacy group Which?, says the findings provide "another damning indictment of the banking industry, many of whose members consistently put sales before customer service".

RBS, for instance, was responsible for 2,557 new complaints received by the Financial Ombudsman Service in the second half of 2009, while the service received 9,952 new complaints about Lloyds in the same period.

Given the scale of the credit crisis and the impact on people's back pockets, this is hardly surprising, senior banking executives say.

Andrew Cave, head of corporate sustainability at RBS, admits the group's brand is "in a difficult place right now". But the

bank's ignominious fall from grace is not borne out by sales data: last year RBS customers opened one million new savings accounts, 1.1m more current accounts and 80,000 mortgage accounts.

"This indicates the underlying strength that exists in the core businesses at RBS, and demonstrates that our employees' commitment to customer service is reaping rewards," RBS chairman Philip Hampton said in the bank's 2009 corporate responsibility report.

"I have always said that if we continue to deliver for our customers on a day-by-day basis RBS will restore its reputation sooner than some commentators believe."

Cave admits banks have been under pressure. "But when you step back, if our products are delivered responsibly and efficiently, they are deemed to be socially useful."

Across Europe, banks once hailed for their corporate responsibility have suffered huge setbacks. For instance, public opinion surveys conducted last year indicated that Danish customers were among the least satisfied in Europe.

Danske Bank, the largest bank in Denmark, which has won accolades for its corporate responsibility programmes, was deeply affected by a general lack of trust, according to its 2009 corporate responsibility report.

Marion Swoboda, senior equity analyst at investment boutique Sustainable Asset Management, says that globally the banking sector has weathered the storm relatively well. She singles out pockets of best practice in Australia (particularly ANZ, Westpac and NAB), Spain (Santander and Banco Bilbao) and France (BNP Paribas and Credit Agricole).

One particular standout in the March 2010 DJSI World Index review was Italy's

Banca Monte dei Paschi di Siena (BMPS), which progressed a lot. Like the Australian banks, BMPS “really understands the importance of rethinking business strategy,” Swoboda says.

“That might not get you points with the traditional analysts – having a more down-to-earth, steady growth strategy as opposed to perhaps a focus on structured finance – but it is certainly the way forward.”

Francesco Mereu, corporate responsibility manager at BMPS, says the bank’s sustainability efforts are in reaction to a marked decline in trust and reputation of the banking sector in Italy.

“Regaining that trust is certainly the focus of our business plan for the next year,” he says. Mereu is confident that the bank’s CEO is keen to prioritise sustainability objectives. The bank’s new core project, set up over the past year, is simply named Sustainability – “the aim is to completely embed environmental, social and governance [ESG] aspects into our management cycle”.

Mereu says sustainability will now be central to the overall business strategy, adding that the bank will use key metrics throughout the business to incentivise change.

BMPS was judged the best financial institution in the CSR Online Awards 2009, the annual ranking of the best online corporate responsibility communications conducted by financial communication consultancy Lundquist.

According to Lundquist, BMPS shows “remarkable sensitivity to corporate respon-

## Retail banks face rising complaints

The UK banking groups responsible for over 70% of customer complaints had a number of features in common.

- Poorly designed staff incentive schemes.
- Inadequate complaint handling by staff in branches and call centres, leading to inadequate investigation into the problems.
- Poor decision-making and unsatisfactory correspondence with customers.
- Complaint handling procedures that led to staff issuing multiple, repetitive responses to customers.
- Failure to learn from previous complaints and to make changes to prevent similar complaints arising in the future.

Source: FSA



£4.15 owned by UK taxpayer

sibility issues and uncommon completeness in reporting”. The bank provides, Lundquist says, a high level of detail, with a great deal of relevant information from its corporate responsibility report available in different formats.

### Opening up?

But have UK state-owned banks been forced into becoming more transparent and accountable since the government became a significant shareholder?

Royal Bank of Scotland, 83% owned by the state, has made some significant strides, according to Cave. “Clearly the new management team had to mark a change in culture. It fell to them to re-engage our stakeholders and win trust by being more open and disclosing more information,” he says.

He adds: “Our stakeholders have to be able to track us, not just trust us.” And so, RBS has moved to quarterly financial reporting, now discloses more financial information to give investors a much better feel, and includes detailed information of previous write-downs.

Lloyds Banking Group, 43% owned by the UK government, was unable to answer Ethical Corporation’s questions. But in its 2008 corporate responsibility report, the bank said it had communicated a “shared set of values” since the government acquired a stake. “We have the opportunity to create one of the strongest and safest financial

services companies in the world,” the bank says in a section headed Rebuilding Trust.

In the wake of the global financial crisis and the ensuing credit crunch, banks now need to forge a much stronger contract with society.

Anne Søgaaard Melchiorson, head of corporate responsibility at Danske Bank, says that corporate responsibility and sustainability must have a much broader focus, and that they have to move even closer to the bank’s core business.

“Beforehand you could have some ‘nice

## Banks need to forge a stronger contract with society

to do’ projects – perhaps some microcredit projects, some [investment] screenings etc – but now responsibility is about the core business,” she says. And this means responsible lending, and how the bank acts as an adviser, she suggests.

Citigroup, one of the biggest banking groups in the world, says it has plotted a path to recovery through the provision of responsible finance in response to what customers want.

Pamela Flaherty, president and chief executive of the Citi Foundation and director of Citigroup’s corporate sustainability, says group chief executive Vikram



Citi flying the responsible flag?

Pandit talks a lot about finance that is “responsible and responsive to consumers”.

“In the US, our CEO is constantly reinforcing the importance of a return to profitability through providing responsible finance. He has talked about the importance of Citi demonstrating it is contributing to the economic recovery of the country,” Flaherty says.

For Citigroup, responsibility means direct action in the markets in which it operates. For example, since the start of the financial crisis in 2007 Citigroup has helped 824,000 consumers avoid foreclosure, Flaherty says.

In May Citigroup launched a \$200m Communities at Work Fund to fuel small business lending in low-wealth and low-income US communities. The fund will provide financing to both non-profit and for-profit community development loan funds that will then lend to local businesses in low-income communities.

The bank will provide \$199m of capital through a combination of equity and loans, with the Calvert Foundation and Opportunity Finance Network contributing the balance.

Executive pay continues to be one of the most contentious issues following a crisis that many attributed to greed.

Tom Powdrill, head of communications

for UK corporate governance adviser PIRC, recently likened the market for high salaries and bonuses to a “remuneration arms race”.

Lloyds’ remuneration report may, depending on the performance of Lloyds’ shares, see chief executive Eric Daniels net up to £6.2m in salary and bonuses over three years. Lloyds’ remuneration report was approved by 90% of shareholders at its recent AGM.

Royal Bank of Scotland saw its remuneration package approved by 99% of its investors – a vote higher than in 2008. RBS chairman

### *Executive pay continues to be one of the most contentious issues*

Philip Hampton told shareholders at the AGM that the bank would listen to investor concerns over its new bonus scheme for senior executives, which could net chief executive Stephen Hester a maximum of £4.8m.

Meanwhile the head of HSBC’s investment banking business, Stuart Gulliver, received in March the largest bonus paid by the bank: worth a whopping £9m. Gulliver, who in addition to running HSBC’s global banking and markets business and its asset management arm is also head of the bank’s

operations in Europe and the Middle East, was paid the stock bonus in addition to his basic annual salary of £800,000.

HSBC, Barclays and Lloyds Banking Group did not respond to Ethical Corporation’s repeated interview requests.

The British Bankers’ Association takes a relaxed view of executive pay. “Banking is global in nature and highly competitive,” says the BBA’s Brian Capon. “The banking industry in the UK is a world leader and earns a great deal of income for the UK economy.” He says that to retain this position the industry needs to compete internationally and that means employing the best people, and to “provide a competitive remuneration package.”

Bevis Watts, head of UK business banking at sustainable bank Tridos, says banking culture is too wrapped up in excessive pay that is based on short-term targets. “We have had a financial system that has been entirely focused on short-term profit performance.”

Watts suggests that at most, people look at business plan objectives for a bank over three to five years. “But in actuality everybody is focused on performance in the current financial year,” he says.

### **Greed culture**

The blame rests with payment structures, Watts argues. “The way that bankers are remunerated has to change because it is an inherent part of this culture that supports this great nonsense of greed and chasing after an ever more unsustainable system,” he says.

Martin Lawrence is head of research at governance advisory firm RiskMetrics in Melbourne, Australia. He is hopeful the global financial crisis alerted enlightened shareholders to excessive pay packages.

“The big issue is huge cash bonuses and guarantee for failure, but that’s not confined to a bank, that’s in all industries,” Lawrence says. But he points out that in reality very few remuneration packages get turned over at AGMs.

Lawrence says there is hope that continual naming and shaming will rein in some excess. “Board directors are timid creatures on the whole. The threat of shareholder opposition can be enough to persuade them. At least that shows they are being responsive.”

While pressure builds to limit executive pay, some institutions are attempting to leapfrog public outrage with innovative compensation packages.

Goldman Sachs said in late 2009 that it would pay top executives in restricted stock, a

## Ramping up responsibility in response to crisis

Some leading banks have boosted responsible practice as a response to the financial crisis.

- **Royal Bank of Scotland's** commitment to customer service has seen savings/mortgage accounts grow.
- **Danske Bank** has developed a financial literacy programme, and wants CR at the core of operations.
- **Citigroup** now helps customers avoid foreclosure and kick-starts microfinance for low income families.
- **BMPS** has been lauded for its online corporate responsibility communications strategy.

scheme that will defer compensation expenses. The awards will consist of shares-at-risk that start vesting in 2010 and can't be sold for five years. Goldman, which has repaid with interest the \$10bn it received from the US Treasury, was derided for allocating a near-record \$16.7bn to pay employees in the first nine months of 2009 after benefiting from government support. Goldman Sachs did not respond to interview requests.

The crux of the problem, critics say, is that senior executives at mainstream banks are not on the whole incentivised to prioritise sustainable business practices.

Dutch financial services group ING is perhaps an exception, after announcing in April the integration of sustainability into the personal accountability and performance objectives of its senior management.

"To ensure that corporate responsibility is an integral part of our corporate strategy, our social, ethical and environmental objectives will be quantified and used as a measure of performance in the remuneration policy of the executive board's variable pay programme," the bank says.

### An ethical umbrella

Rabobank's head of corporate social responsibility, Richard Piechocki, says the Dutch bank – one of the 20 biggest banks in the world – was virtually insulated from the credit crunch.

The bank, which has a cooperative ownership structure, was founded over 110 years ago as a rural credit cooperative by Dutch farmers who sought to provide their rural communities with access to fair and sources of credit.

"Customers believed we were an island in a rough sea since we have very strong policies and avoid high-risk products,"



Still big bonuses to be made at HSBC

Piechocki says. Customers become members of the local cooperative Rabobank branch and have a say in how the bank is run through elected member councils, which feed into the broader governance network.

"We believe a company can only survive [in] the future if sustainability becomes a core part of the business – [if] there's a solid business case. Now you have to organise your operations in a sustainable way. Otherwise you lose to competition," Piechocki says.

Triodos, the Financial Times Sustainable Bank of the Year in 2009, has also benefited

## Sustainable banking is impossible without transparency

from its lending practices and alternative ownership. The bank says it finances companies, institutions and projects that "add cultural value and benefit to people and the environment", that this is done with the support of depositors and investors "who want to encourage corporate social responsibility and a sustainable society".

Bevis Watts says sustainable banking is based on three main tenets at the bank: how the money is used; transparency; and governance.

"We give an assurance to customers that we will only be supporting projects that can demonstrate they have a positive social and environmental impact," he says.

He argues that sustainable banking is impossible without transparency, "both in how you use the money – we have a Google-powered website that you can search and see all the organisations supported by the bank – and in the products you offer customers".

With governance such a high priority, Triodos offers shares that are held in trust, with shareholders receiving depository receipts. Everybody has the right to elect a board of trustees to represent that trust. No organisation can own more than 10% of the bank's share capital, ensuring its independence.

With all this in place, Triodos achieved 30% growth across Europe last year as the mainstream banking sector contracted.

"The fact we are not exposed to the wholesale money markets has been the key to having that stability and ability to be able to lend," Watts says. He contrasts this with what many other banks have done: vastly leverage their balance sheets, borrowing and lending funds beyond what they can comfortably secure.

"They have become too big to have any responsibility for the risks that they run. We have ended up with a system that is too big to fail," he concludes. ■



ISTOCKPHOTO/ZUMBIGRAF

Campaigning pressure

## Short-changed on bank reform

By Oliver Wagg

**Banking sector activists are concerned that the reforms being promised do not go far enough**

The global financial crisis that triggered the failure of some of the world's biggest and best-known banks has led to fervent calls for wholesale reform from investors and civil society alike.

But change has been sluggish and patchy at best. It has been held up by regulatory and political hurdles and the reluctance by the banks themselves – most of them beneficiaries of large public bailout packages – to search for and deploy alternative business models.

Many social justice and environmental campaigners see the financial sector's meltdown as a huge opportunity for fundamental reform of the way banks conduct their business. But most are worried that little has changed.

Ruth Tanner, campaigns and policy director at anti-poverty campaign group War on Want, says her organisation is extremely concerned that the public is not getting the fundamental change they are demanding. "At the moment we are seeing 'back to business as usual' and back to bonus culture and casino capitalism, which got us into this mess in the first place," she says.

She says that the City has been considered untouchable [by the UK government]. While some "tangible ideas" have been put forward over the last year, such as tackling

tax evasion and taxing the banks to fund development projects, "the banks have fought very, very hard against what we are calling for".

Johan Frinjs, coordinator of Banktrack – an international network of campaign groups – says the bank sector is actually moving in the opposite direction of reform. "You would expect after the turmoil that the banks would be looking at some very strong policies, but mainly they aren't and are quite defensive."

Tanner agrees the sector is not serious about changing its business practices. "All I have heard is PR spin on some very serious issues, such as investing in the arms trade." She says that UK banks have been effectively lobbying to oppose structural change that would be good for the economy and security, and "the rights of some of the world's poorest people".

### Leveraging public ownership

Campaigners in the UK and the Netherlands are keen to persuade their governments to use their clout to reform state-owned banks. These include UK banks Royal Bank of Scotland (83% owned by the government) and Lloyds-TSB (43%), and ABN Amro, whose remnants were nationalised by the Dutch government after it was

bought in 2007 by a consortium of RBS, Fortis and Santander.

The Dutch parliament released a report in May that encapsulates the lack of progress. The Report of the Parliamentary Committee Inquiry Financial System says the committee calls for "serious and critical reflection" by all parties involved in the financial system.

The report states that some of the important factors that served as the causes of the crisis in the financial system are still present, both in the structure of the system itself and in the culture and conduct of those within it. "These factors could once again cause problems in the financial system in the near future," it concludes.

And Banktrack's Frinjs says: "ABN Amro is planning to be the very same bank that it used to be, rather than something that has learnt from the monumental mistakes it made. The culture hasn't changed at all."

Banktrack recently published a major investigation into the business conduct of 49 global banks – Close the Gap – the third study of its kind designed to stimulate the development of world-class investment policies by the banking sector.

Despite the turmoil caused by the global financial crisis, the sector has developed more policies covering more sectors and sustainability issues. However, the overall quality of these policies "still leaves a lot to be desired", the author of the report Jora Wolterink says.

The key to all this lies in better transparency. One environment, social and governance researcher who preferred to remain anonymous pointed out that no banks report on their actual business. Miners and oil companies report on the impacts of their business, he says, but banks



## St Vince to the rescue?

Hope for tougher bank regulation in the UK emerged in May with the appointment of Lib Dem Treasury spokesman "Saint" **Vince Cable** – hailed by right and left as a prophet who predicted the banking crisis – to the post of business secretary in the new coalition government.

Lib Dem policies have tackled the area of finance sector regulation, supporting a tax on financial transaction, a new green investment bank and intervention to **curb speculation** through breaking up the banks. At its conference in 2009 the party laid out policies to end taxpayer support for Royal Bank of Scotland's investments in tar sands extraction.

"Introducing these policies from the outset would signal a real commitment to cleaning up the mess that the financial crisis has left Britain and the world in," says Deborah Doane, director of the World Development Movement.

Kevin Smith, co-director of Platform says: "Vince Cable needs to ensure that the reform of the banking sector involves addressing environmental as well as financial sustainability." He argues that the new government's plans for a green investment bank will be dramatically undermined if it continues to allow RBS "to use public money to support and expand carbon intensive industries and operations around the world".

But just days after the new coalition government



DREAMSTIME.COM/MARKWATERS

Leaders try to get tough



High hopes for Vince Cable

was formed, reports emerged that the new chancellor of the exchequer, **George Osborne**, will take responsibility for reform of Britain's banks and not the Lib Dems' Cable.

The Treasury is to remain in charge of banking policy and the financial services sector, with Osborne chairing a key cabinet committee that would commission a top-level report into the feasibility of splitting the "casino" investment banking arms of banks from their mainstream high street operations.

The parties agree that a banking levy will be introduced and state that they will bring forward detailed proposals for robust action to tackle unacceptable bonuses in the financial services sector. "In developing these proposals, we will ensure they are effective in reducing risk," the new government says.

"generally report on admin, not their core business. A lot of banks tend to win awards for their sustainability reports, but this is nonsense."

### A taxing problem

A significant portion of the criticism levelled at the banking sector focuses on the mysterious ways some conduct their tax activities. Consequently banks have a great deal to gain by lifting the shroud of secrecy, campaigners say.

The stakes are high. Taxing Banks, a submission to the IMF by Christian Aid, the Tax Justice Network, UK trade union movement the TUC and others estimates that recommended measures to tackle corporate tax avoidance by banks might raise existing yields by 50% to \$180bn worldwide.

The potential revenue streams from enhanced bank reporting on customer activity are much greater still: a significant proportion of the current estimated \$255bn lost to tax evasion as a result of bank opacity might be recovered.

Christian Aid's chief policy adviser, Alex Cobham, says tackling the root cause of the global financial crisis would help stamp out tax evasion, which has huge potential for

alleviating poverty in developing countries.

Cobham argues that financial secrecy not only reduces the tax base, it also distorts economic and social processes. "Effectively it tips the balance within a developing country away from giving people incentives to invest and carry out genuine productive economic activity and towards things that

### *Banks have a great deal to gain from lifting the shroud of secrecy*

involve them taking their slice of the cake," he says.

With the G20, OECD and the IMF all starting to scrutinise these issues much more closely, there is an opportunity for the banking sector to be seen to be clean.

For most banks this isn't a great part of their business – there are some banks, probably a minority, where tax avoidance is a particularly large part of their business. But for most banks the reputational risk of being seen or revealed to have been involved in tax evasion is probably quite large compared with any financial benefit. ■