A NEW CIVIC ROLE FOR THE FINANCIAL SECTOR
A CONFERENCE HELD AT THE NEWSEUM, WASHINGTON D.C., JUNE 10, 2010

BANCA CIVICA
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The recent economic crisis has demonstrated the need for the financial sector to undertake a new role, one that pursues commercial and social profitability through the empowerment of stakeholders and a full embracement of civic values such as transparency and participation. As stated by Banca Civica’s President, Enrique Goñí: “The conventional ways of doing business will cease to exist. In the future, financial institutions will have to be civic, if they want to survive.”

The challenge is to channel the resources and mindset of financial institutions towards the competitiveness of the financial sector and to foster strong and sustainable economic, social, and environmental development.

The conference explored how the non-profit sector and the financial sector can collaborate to foster civic values and change across society; how financial institutions can promote sustainable social and economic development in emerging countries; and how education can be a catalyst for a better financial system.
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In the wake of the worldwide financial crisis, the banking industry has suffered damage to its public image. Many people see banks as being motivated purely by profit and largely unconcerned with their impact on society. Even though the public tends to blame Wall Street institutions and "Big Banks" for their woes, consolidation in the industry has meant that retail banks have not escaped unscathed.

Given this climate, what can banks do to change the way they do business and be closer to society, and indeed change customers' perception of them? Recently, Spain-based Banca Civica and the Center for International Business Education and Research (CIBER) at the University of Pennsylvania's Lauder Institute sponsored a conference in which key players from the nonprofit, international finance, education and banking sectors came together to discuss what they are doing to promote new, more ethically-oriented and socially-responsible banking relationships.

In introducing the conference, Mauro Guillén, director of the Lauder Institute and a professor of international management at the Wharton School, noted that the aim was to encourage different parts of society to talk to each other about a better model for organizing the financial sector—a model “that pays more attention to society, the individual and the community.”

Enrique Goñi, President of Banca Civica, added that, until recently, everyone's focus was on how to recover from the financial crisis. "Now it's about confidence—figuring out new rules and also new roles for the customers, bankers, and suppliers. Yes, banks are in business to make money—but the way they do it can be anything but traditional. Profit orientation and social development need not be mutually exclusive," Goñi said.

Led by Goñi, Spanish bank Caja Navarra introduced the concept of civic banking in 2004. Cajas were traditionally private savings banks organized as foundations; they allocated part of their profits to charitable organizations. Goñi expanded this idea to make the bank truly customer-centric and accountable. Since then, the Banca Civica has emerged from the merger in 2010 of Caja Navarra and two other cajas—CajaCanarias and Caja de Burgos. Banca Civica now has assets of $60 billion and boasts 1.8 million customers.

Banca Civica gives customers the right to know and decide where their savings are being invested, and also discloses to customers how much it earns with their business. The bank then sets aside thirty percent of its profits for philanthropic causes, and permits customers to decide to which of more than 6,800 philanthropic projects their share of those profits goes. The philanthropic organizations, for their part, agree to explain to customers how that money is used. Customers are also able to further support these organizations as volunteers.

Banca Civica aims to start banking operations in the United States in 2011, pending government regulatory approvals. Anticipating this, it is developing strategic alliances with a select number of United States nonprofit organizations. At the conference, the participants discussed in detail possibilities for mutually beneficial cooperation among non-profits, multilateral agencies, communities, and banks.
The conference began with a spotlight on organizations with direct reach into the community—after all, non-profits have long been catalysts for social change. In an ideal world, what do non-profits desire from their banking partners in order to meet their strategic challenges, and how can banks best provide it? The panel moderated by Íñigo Jodra, Director of International Development for Banca Cívica, heard from strategic partners of the bank about best practices.

“We think that collaboration between the corporate and social worlds is not a choice but rather a strategic requirement,” said Jodra. “Both parties need it to compete and survive.” Corporate donors, he explained, amounted to $14 billion out of $304 billion worth of giving in 2009 in the United States. “So in absolute numbers, corporate donors were a significant part of the good work that social entities are doing. But social entities don’t just need funding—they want to be able to extend their reach and be more useful for more people.”

On the one side, said Jodra, “there is a never-ending demand for being as efficient as possible for society. Banks, on the other side, want and need to find innovative ways to compete. Traditional business strategies are no longer effective, because society is changing; stakeholders are demanding to participate and not just be considered in the company strategy.”

“For non-profits,” added Jodra, “the logic and the challenges for partnership go beyond funding; and for banks, the strategic challenge goes beyond mere reputation-boosting or marketing, which right now guides a lot of their corporate social responsibility projects. A successful collaboration would meet these challenges.”

“For corporations, it’s useful to know whether we’re meeting expectations and being involved and committed enough to society’s needs. On the other hand, we are corporations, so we also have to grow and be profitable,” he noted.
Panelist María Gómez, President and CEO of Mary’s Center for Maternal and Child Care in Washington, D.C., said “we couldn’t be here today if it weren’t for some of the major organizations, including banks. They have made possible our ability to move forward with our mission.”

With an annual budget of $14 million, Mary’s Center serves the Washington, D.C. metropolitan area with quality health care, education and social services.

So what are the challenges? “There are stakeholders who want to fund only specific programs like immunization or teen pregnancy instead of giving us general support. We’re better off if they fund the bigger mission and help every program that, for instance, has an impact on teen pregnancy such social services, home visiting and the health center,” said Gómez.

And even when people do give funds for general support, noted Gómez, “they don’t want to fund our staff. But how would these programs get done without people?”

Impatience is another huge issue with funders, explained Gómez. “The social determinants of life can’t be measured in six months or one year. We can show steps on the way, but everything can’t happen over the period of one year.”

Mary’s Center went from an annual budget of $250,000 to $14 million; but funding sources often don’t increase proportionately when an organization gets bigger, explained Gómez. “We have to be constantly demonstrating that our programs are proven and evaluated. We welcome that rigor, of course, but those requirements take money and experienced people to run them,” added Gómez.

As for collaborating with banks, honesty is very important, Gómez said. “It’s important to be able to tell my banker, ‘Here are things that excel and here’s where we’re falling short.’ And to know that when I do they’re not going to say, ‘Uh-oh, I’m going to find myself another partner.’ So if we’re having a problem, they can help; we have common goals.” Each party can benefit in a relationship, said Gómez: “A bank needs customers—we have a lot of people. And we can leverage the bank’s name to raise more funds.”

Corporate expertise is valuable, too, said Gómez. “Sometimes non-profits can’t afford a CFO, or other functions—your expertise in building websites, branding, management skills, strategic planning is useful.”

“Adaptation is important,” noted Gómez. “Many corporate partners come to us with an already fleshed-out plan, saying, ‘We want to make sure you buy into it.’ Sometimes that plan doesn’t fit our mission. Often, without changing our mission, I have to do a dancing game because at their board of directors’ table they’ve already decided what’s best for the community.”

But money isn’t everything. “Often a relationship doesn’t go further than, ‘I need money for the gala, and you want our customers,’” said Gómez. “We must get to know each other better. You need to work with us and we need to understand your business model.”

Collaboration and Potential Competition? “Communities are in need of enlightened financial service providers—and the providers are in need of markets,” said Mitsi Sellers, Strategist for Partnerships and Trends at World Vision, which helps develop public-private partnerships to address international relief and development priorities. A multisector provider, World Vision is a community-based Christian humanitarian organization active in 97 countries.

“Companies have had several kinds of collaborations with us,” noted Sellers. “They donate excess product, for which they receive a tax benefit. They volunteer employee time building school kits and HIV/
AIDS caregiver kits as a team-building exercise. They do cause marketing. We receive financial grants from them. We work with companies on new product development, helping them test in new markets.”

Why do they do this? “Our experience is similar to what’s been revealed in research by The Boston Consulting Group and others: the drivers for corporate social responsibility vary from industry to industry and country to country,” said Sellers. “The prominent driver is still reputation and brand. But an increasing percentage of companies are looking for more robust ways of approaching corporate social responsibility or sustainability and are bringing it closer to their business interests, whether those interests are employee recruitment, access to new markets, etc. The closer corporate social responsibility is to their core business, the more involved they can be.”

Sellers gave an example of a financial institution working with them in the developing world: “We work with a multinational with a presence in Zambia. They provided a scholarship grant for high-flyer girl students. They said CSR was woven into the fabric of the company and so they allowed staff members two paid days per year to volunteer. The staff have incredible financial skills but were having difficulty finding places to plug in. So we’re linking them with dozens of small local organizations in Zambia with whom WV works and whose financial management capabilities we seek to bolster.”

“In Mozambique, World Vision is in discussion with a financial institution. They recently launched a program to provide guaranteed loans to smallholder farmers. They are rolling this out in several countries, so we’re linking them with farmers’ associations and helping them find customers with whom we’re working on capacity building issues,” said Sellers.

What happens when the nonprofit makes a move to enter the financial space itself? World Vision is in the microfinance space. “We have 624,000 active borrowers, with a $381 million loan portfolio globally,” Sellers said. “Our average loan is about $570, with 96 percent payback. Sixty-eight percent of the customers are women, and we estimate that 2.2 million children are benefitting.”

People can donate through www.worldvisionmicro.org and also through investments via the Calvert Foundation. Microfinance institutions sometimes obtain loans from commercial banks. “We are looking at different ways of accepting capital,” said Sellers, “and anticipate growing the size and impact of our portfolio.”

How will this tie in with banking partners? “There’s a continuum of financial services available, from informal to formal,” said Sellers. “Microfinance can fall anywhere along that continuum. Some commercial financial entities are moving downmarket, whereas some non-profits are going up the chain. Because of the operational models, there is no hard-and-fast distinction—it’s more of an amalgam now. Our perspective is that we are natural collaborators. Non-profits always need banks, and commercial banks always need clients.”

Where is there potential for new roles and rules? Two areas, said Sellers. “One is the issue of financial inclusion. There’s an enormous untapped market of people without access to financial services. Reaching them involves going to the clients as opposed to requiring clients to come to the institution. The second is to identify some less-targeted markets—disabled people in the developing world, women, etc. To use a phrase coined by colleague Susy Cheston, you ‘need to make invisible markets visible’.”

Sellers noted that it would be great to have “client-centered services, rates and offers. There is great opportunity for moving beyond enterprise-based microfinance. People need education loans, insurance, etc. Think about the varied financial services you have access to and all the people who don’t have them.”
Profit Co-existing with Nonprofit
As executive vice president of soccer organization D.C. United and president of its charitable arm, United for D.C., Stephen Zack wears two hats simultaneously. Zack acknowledged the dichotomy: “We’re a for-profit organization with a nonprofit arm. The league was formed in 1996; as the president of D.C. United and I were developing the brand and going into a sphere with already-established sports teams, we knew we were outsiders and wanted to become part of the community. Our motto was ‘Win Championships, Serve the Community’ and we took that seriously from the very start. We created a community relations department whose purpose was to get team members out into the community. We didn’t have funding to do other stuff, so we created a charitable arm in 2002.”

Zack described their current three specific programs—“Kicks for Kids,” where companies purchase tickets and donate them back for kids to enjoy a soccer match and dinner; United Read, a literacy program to encourage reading, where 8,000 to 10,000 books are donated each year and the schools visit with staff; and the newest, United Soccer Club.

“We were in the process of speaking with the District of Columbia about building a soccer stadium; we were looking at an area in Ward 8 over the Anacostia River, since it was important to us to be involved in the community,” said Zack. “We didn’t want to just put our footprint there, so we talked to the community about what they were looking for. They said, ‘Will you teach our kids soccer?’ So we created a free after-school program for kids in first, second, and third grade.”

“Our stadium plans fell through two years ago, but we expanded the program,” noted Zack. “At first we had a business interest there, but now we still serve the community. We want to grow it vertically so the kids can go through to high school, and maybe receive scholarships.”

Why? “One goal for us is identifying talent,” said Zack, “so maybe we can find players out of it—but also the goal is really the mentoring—it keeps kids off streets and gives them the opportunity to learn teamwork and leadership skills. All of our funding is from programs we run and individual and corporate donors. To expand, we’re going to need a lot more funding than we get right now.”

Zack noted that when first approached about the civic banking model, he thought ‘What’s the catch?’ “But the more I’ve met with people from Banca Civica, I realized what they’re trying to achieve. It’s the same as us—both the business side and the social side. We’re a very small organization; our United Soccer Club program affects maybe 500 kids, but that’s the beauty of civic banking. Shareholders can pick who they want to support—a worldwide organization or something happening right in their backyard.”

Zack believes that working with the community helps both sides of the organization gain awareness: “People who might not know us might come to D.C. United games.”

“It’s also affected how we do business,” added Zack. “The financial crisis had a major effect on the sporting industry. Now we have the opportunity to say to partners it’s more than just providing logo opportunities on a signboard or tickets. We come up with integrated sponsorships, so money comes into both the foundation and team sides.”
Unlike the average commercial bank, institutions like the World Bank and other international financial institutions (IFIs) exist primarily to advance development around the globe. More than 50 years after the ‘Bretton Woods’ organizations (the World Bank and International Monetary Fund) were created, these IFIs are still very much in the news, especially when prominent countries suffer major debt crises.

Moderated by Stephen Sammut, venture partner at Burrill & Company and a lecturer at the Wharton School, this panel addressed such questions as: How do IFIs see their various capacity-building roles, and how are they fostering development in countries while balancing the need for sustainability?

**Finance - Not Evil But a Vital Good**

“Events like the financial crisis provide an opportunity for people to change their views on the role of finance and what the role of a financial institution is,” said José Viñals, Financial Counsellor and Director, Monetary and Capital Markets Department, at the International Monetary Fund.

Certainly, said Viñals, “A well-organized financial sector can play an important role in fostering economic and social development, and economic growth and stability. Finance is actually something good.”

Viñals compared a failure of the financial system to the drying up of the bloodstream in the human body. “Look at the Asian crisis and the Latin American crisis to see what problems happened. In these crises the ones most hit lost nearly 30 percent of their GDP in accumulated terms. The banking system has had to support huge los-
ses. Government debt has increased. Public debt in advanced countries has gone back to post–World War II levels, but without a world war.

A well-functioning financial system contributes to more than just the economy. “Many of the improvements and financial sector reforms also filter to other parts of society,” explained Viñals. “It leads to legal framework improvement; commercial, taxation, and consumer protection laws; a better justice system; accounting and property valuation standards, etc.”

So how does the IMF play a role in all of this activity? “Countries request help; we can help improve their financial supervision and regulation and payment systems; we help them deal with banking crises and give technical as well as monetary assistance. We advise them on difficult but necessary adjustments to cope with a crisis,” said Viñals.

But the IMF doesn’t just step in after something happens. “We also conduct financial sector assessment programs and do in-depth check-ups,” he noted. “What are the risks, quality of financial structures, what are the crisis management standards of a country? We’re just now finishing the assessment of the United States.”

“We don’t directly work on corporate governance of financial institutions, but we do promote good economic and corporate governance—governance that seeks the best interests of all its stakeholders. The failure of governance has been at the center of this crisis,” said Viñals. “A regulatory revolution is now underway; standards are being revamped. We want to make the financial system safer and more transparent—to really add value to society and not to deceive people but actually help.”

The role of institutions like the IMF is to push people toward this goal, said Viñals. “We can learn lessons from this crisis—what to do and what to avoid. We’re not only trying to help the world but also do the best we can in cooperation with various bodies so that we do not repeat these mistakes in the future. This concerns not just advanced countries but also emerging markets.”

Investment to Alleviate Poverty
An arm of the World Bank Group, the International Finance Corporation (IFC) provides products and services to the private sector with the objective of alleviating poverty around the world, explained James Scriven, Director, Global Financial Markets at IFC.

“We invest in financial institutions around the world and also provide advisory services,” said Scriven. “Most of our investments are in banks—universal commercial banks—but we do expand our services to other targeted financial institutions—such as leasing companies that have special services for some populations. We have approximately 600 financial institutions in our portfolio around the world. Most are regulated financial institutions, and we have around 100 microfinance institutions in 60 countries.”

As equity investors and shareholders, the IFC provides risk capital and plays a role in corporate governance. “I’d single out poor corporate governance as the most important problem we see when a bank fails,” noted Scriven.

The IFC also provides long-term capital. “A lot of our clients want to invest in infrastructure or provide financial services to the base of the pyramid. An institution like IFC can provide risk-mitigating instruments,” said Scriven.

“Financial institutions provide products and services to small and medium-size enterprises,” he continued. “They may have different indicators of job creation or preservation, but SMEs lack access to financial services. So we do try to move our
market to that segment—and move even further to provide to micro entrepreneurs. At IFC we call them developmental goals, measured by how many clients we reach.”

So how are the IFC’s efforts evaluated? “We obviously have to be a sustainable institution,” said Scriven. “We invest with an objective to have a return on our investment. We want to demonstrate that investing is a profitable business. But we are in the business of alleviating poverty.”

Best Practices in Latin America and the Caribbean
A multilateral development bank, the Inter-American Development Bank (IADB), established in 1959, is headquartered in Washington, D.C. and is the largest source of development financing for Latin America and the Caribbean.

Panelist Daniela Carrera, Chief, Financial Markets Division, Structure and Corporate Finance Department at the Inter-American Development Bank, spoke about the bank’s influence on the financial institutions in its region. “We take a holistic approach and look at sustainability very globally. We look at the impact of environment and climate change; gender and diversity; social inclusion—there are untapped portions of populations who still don’t have access to sound financial services, either for businesses or their own families. We start with these key areas of corporate social responsibility and encourage companies to move forward with the objective of having it within their core business, similar to Banca Civica.”

Carrera explained that IADB looks at what social programs financial institutions engage in and what that means for the balance sheet. “For example, a dollar spent on environmental impact mitigation is a dollar saved on the potential risk if things were to go wrong, or an opportunity for new business developments,” she said. “Every dollar spent on financial literacy can represent improvement in the management of your own portfolio (people understand debt, so the quality of your portfolio goes up) and you can expand your client base. Also, financial institutions are large employers. You have to have institutions that your own workforce feels aligned with, where employees can do good within and also outside the workplace.”

Several institutions are doing this in different ways, noted Carrera. “Our role is to support that development. Our ‘Beyond Banking Platform’ is one of the programs IADB has to provide expertise; financing; risk mitigation; and a meeting point for experiences to be shared across the region to promote best practices within their own institutions.”

Carrera admitted that there are important obstacles in some countries to getting financial institutions to adopt sustainability practices across the board. “In Brazil, the inclusion of sustainability parameters into financial intermediaries is more advanced, whereas in other countries it is still just beginning. The effort is enormous, and there are important challenges ahead to get people to pay attention and be able to measure the double or triple bottom line. In Mexico, there is an initial effort by some banks, getting together with other institutions, to report a double bottom line. It’s a big advance”.

IADB provides a combination of financing and technical assistance for the institutions to start and continue their process of combining corporate social responsibility with their core business, said Carrera. “We don’t come in with a formula; we respond to the scope of the institutions and the adaptation of best practices and innovation. The key point is that you need to have a CEO, CFO and Board of Directors who are really committed to doing this. That makes the difference between one attempt and another.”
3. The Future of The U.S. Financial Sector

What role does government play in the financial sector and its reform? David Nason, former Assistant Secretary for Financial Institutions, United States Department of the Treasury, shared his thoughts on the issue in the conference’s keynote speech.

Public Opinion of Banking.

In general, the financial crisis and recession has not helped the image of banks, either large or small. “There are thousands of banking organizations, from large megabanks to small community banks and credit unions and other financial intermediaries,” said Nason. “Banks have made efforts to make their websites easier to use, their branches more customer friendly, etc., but, in general and sometimes unfairly, public opinion of the banking business is quite low. In many cases, it can only go up from where it is now.

One of the biggest mistakes the government made while I was policymaker, said Nason, is explaining to the public why the bank bailout was needed: “It’s hard to explain why investment banking activities are critical and necessary to small businesses across the country. Explaining the connection is hard. Banks need to put some profits into civic responsibility to turn their public image around.”

Some critics charge that the financial woes in the U.S. have been made worse since banks were able to become large conglomerates. “The Glass Steagall Act”, passed in 1933, was a prohibition on banking organizations getting involved in other financial services’ business-like securities. In 1999, Graham-Leach-Bliley repealed part of it, allowing commercial banks, investment banks, securities firms and insurance companies to merge,” explained Nason. “The debate is about whether the repeal helped exacerbate the financial crisis. I’m of two minds on this. It definitely made these firms larger and more complex. On the other hand, many of the now-permitted activities as a result of Graham-Leach-Bliley were not the cause of the crisis. The legislation in Congress will limit the ability of traditional banks to engage in some of these other activities.”

Banks and Social Policy

Perhaps the closest thing to civic banking in the popular mind are credit unions, said Nason. “Credit unions were created in 1934 as non-profits to serve members. They have a unique structure, exempt from corporate income
tax. They return all excess profit to members. They tend to enjoy broad political support. In general, people feel more connected to their credit unions than their banks, except for possibly their community bank.”

“The Community Reinvestment Act, passed in 1977, required banks to lend in the communities they serve and not to make bad loans,” said Nason. “While race discrimination in lending was banned in the Fair Housing Act, the CRA was meant to stop redlining—the practice of lending based on someone’s neighborhood rather than creditworthiness. But some argue it made banks offer more loans and may have exacerbated the financial crisis. I am not sure that I believe and that this is proof for that argument.”

The Unbanked/Underbanked Population
Many people in the United States rarely or never use traditional financial institutions. “There is a huge and growing population of the unbanked and/or underbanked,” said Nason. “Treasury and other government agencies have struggled to address this. Of U.S. households, 7.7 percent are unbanked—they have no savings or checking accounts. Racial/ethnic minorities are more likely to be unbanked than whites. So there is a great disparity. About 21 million households are underbanked—they have an account, but rely on many alternative financial services, such as check cashing, pawn shops, refund anticipation loans, etc. So we need to find ways to attract more people to the banking system.”
Finance is becoming democratized – there’s a disintermediation away from banks and insurance companies. So the financial profession is deeply challenged to show that they put the best interest of clients first.

John Rogers, President and CEO of the Chartered Financial Analyst (CFA) Institute

4. Education as a Catalyst for a Better Financial System

If people were educated earlier in life about financial matters, how might their attitudes toward banks change? On the flip side, could encouraging more ethics education in business schools and financial training programs change bankers’ attitudes toward customers and society and encourage more social responsibility? This panel addressed both angles of this issue, exploring the ways that education can serve as an impetus for positive change in the relationship between financial institutions and customers.

It’s Never Too Early

The State of Delaware is known for being a corporate haven; indeed, many companies choose to locate their headquarters there to take advantage of its business-friendly laws and knowledgeable Chancery Court. What’s less well-known is that the Delaware is a leader in financial literacy education, with a slew of programs, starting in elementary school, designed to foster an understanding of money issues.

“Our mission is to serve the needs of low-to-moderate income people, with free financial education across the State,” said panelist Ronni Cohen, Executive Director of the Delaware Financial Literacy Institute (DFLI). With corporate and individual donors as well as a modest state grant, the programs serve children, teens and even their parents.

“We see more and more parents bringing their teens, age 14 to 17, to our classes—we discuss saving for college and filling out financial aid forms,” said Cohen. “We do a Money Rules summit—a daylong conference for high school juniors, about setting goals, the high cost of credit, etc. Every summer we run an institute for teachers. Our Money Talks e-newsletter, with tips for parents to talk to their kids, goes out to 7,500 people.”

DFLI also runs a program called “Bank at School” (in conjunction with the Delaware Council for Economic Education and banks located in Delaware), which is now at 26 schools in the State. By teaching children basic banking and bringing branch banking into elementary schools, it promotes a savings ethic. “Through the program, children open noncustodial accounts at the bank,” said Cohen. “It’s important that they be noncustodial, because in some low-to-moderate income families, if children deposited money, parents might withdraw it for other needs. Children can deposit money but can’t withdraw it at school; they must go to a branch bank for withdrawals or to close accounts. We have some students as junior tellers—to collect money and tally up the deposits.”

In addition, schools receive materials to introduce banking basics to the young students. Recently, DFLI signed a three-year Memorandum of Understanding with UnitedWay of Delaware which would provide funding to make the program more robust.

The results are telling, said Cohen: “Students who opened accounts as youths will later say, ‘I used it to pay for my senior trip!’”
These programs especially make an impact in immigrant and minority communities, noted Cohen. “Because of cultural and language barriers, kids are often the ones who often handle legal and financial matters for their parents. If you teach kids finance, they want to learn things relevant to their lives. On banking days, sometimes the family would come watch their kids make deposits.”

The program has made efforts to reach out specifically to minority groups, as well. “We have a contractor who has translated our materials into Spanish, but it’s hard to reach that population,” said Cohen. “With low-income, bilingual families, you have to provide child care; you have to go out and bring people to class to get them to attend.”

Cohen emphasized the fact that these are lifelong tools: “Kids bring these lessons home. People who have financial training before buying a house don’t take risky loans. As a society, we have not educated our kids in civics, finance, and economics.”

**Ethics in Business Education**

Business schools aren’t typically thought to encourage socially-motivated leaders—after all, they are the pools from which Wall Street gets much of its talent. John Fernandes, President and CEO of AACSB International – The Association to Advance Collegiate Schools of Business, explained what his organization—the global accreditation body for business schools and accounting programs—and its member schools are doing to change that.

“Twenty years ago, there were 4,000 business schools,” said Fernandes. “Now, there are 12,000—the growth has been fueled by the transformation of the developing-world economies. We have 21 standards for business school accreditation. Generally, it takes schools five to seven years to achieve them. One is that the school’s mission must be bought into by the stakeholders; it must have great faculty; it has to have learning goals. We do a physical review on site, and benchmark schools every year.”

Business schools are good on the analytical side, said Fernandes, but what they need to do more is to balance that with the social side: “Businesses make decisions that affect society as a whole. It’s not enough to graduate someone who adds business value; he must also add social value. When individuals graduate, situational pressures can influence them and expose them to bad behavior. The schools need to get better at teaching about this, but good strides have been made.”

While no business school specializes in everything, AACSB provides some guidance using the standards it sets, noted Fernandes. “Today’s student needs all of the analytical capacity and communication skills; plus, that individual will operate in a global context so he or she has to be able to hit the ground running. In addition, graduates must understand the ethical context of their decisions and must know how to manage risk.”

“Tomorrow’s leaders must generate economic and social value everywhere,” said Fernandes. “Most of the progress will be in the developing world.” Fernandes highlighted innovation, entrepreneurship, creating social value, and managing risk as the key areas of focus for successful business school students and graduates.

**An Ethical Outlook for Investment**

The Chartered Financial Analyst (CFA) Institute was founded in the middle of the century. Its mission is to educate potential investment professionals on the highest standards of ethics and finance. Thousands of people worldwide take its
flagship examinations, with three levels of certification. John Rogers, President and CEO of the CFA Institute, explained how the body’s standards attempt to keep their members honest and ethically-minded.

“A high-level certification program is one of the hallmarks of a professional program —like law, medicine, etc.,” noted Rogers. “About 15 percent of our exams are focused on ethics, and everyone must sign a statement of professional conduct with respect to dealing with clients, obeying laws, ensuring there is sufficient basis for financial advice, etc.”

Rogers noted that financial careers typically attract people who aren’t so socially-minded. Psychological profiles show that “more narcissists than givers go for business education,” he said.

Interestingly, Rogers said, “when students are asked to take a pledge or recite the 10 Commandments before a test, their propensity to cheat goes down. They in fact behave more ethically having taken the pledge.”

Rogers said that the Institute requires its members and candidates to sign such an affirmation every year. “We also have a professional conduct team responsible for several hundred alleged violations of standards. They are evaluated by a jury of peers, and sanctions range from censure to removal of the CFA designation.”

On the whole, Rogers said, “finance is becoming democratized—there’s a disintermediation away from banks and insurance companies. So the financial profession is deeply challenged to show that they put the best interest of clients first. It’s full of agency conflicts—there’s always an opportunity to take more from a client than you should.”

“Businesses make decisions that affect society as a whole. It’s not enough to graduate someone who adds business value; he must also add social value.”

John Fernandes, President and CEO of the Association to Advance Collegiate Schools of Business
To conclude the conference, Adrian Tschoegl, a lecturer in multinational strategy at the Wharton School, sat down with the President of Banca Civica, Enrique Goñi, to find out how the civic banking initiative got started—and why it’s a sustainable business model.

[Adrian Tschoegl] Traditionally, Cajas in Spain were run by local politicians who got great benefits by choosing how to allocate the funds. How did you manage to change this?

[Enrique Goñi] It wasn’t just me. All of us in the institution were generous in mind and spirit. There’s another way to do politics, and it’s to empower people. The politicians understood the need to relinquish power, and they did.

Did you lose any people when you changed the philosophy of the business?

Yes, some. There is a saying in Spain that you can’t make new wine in old barrels.

Did you lose customers?

I don’t think so, but in the beginning, many customers thought this was merely a cosmetic change. They didn’t believe in it. During the first and second year, it was hard to get them to see and understand their new role.

5.
Banca Civica: a New Way to Do Banking

Can one apply this model more broadly in the financial sector?

Yes, I think the old ways of doing business will cease to exist. In the future, financial institutions will have to be civic, if they want to survive. But, on the other hand, selfishly speaking, we hope to be alone as long as possible. All our ideas are protected to the extent legally possible. But it’s always easier for companies to repeat a sure success than to make a radical innovation.

“Around 90 percent of our customers now choose projects for allocation of funds. But in the first year, some customers preferred living like subjects!”

When I teach strategy, I always tell students that the easy thing is to figure out the destination; the hard thing is, how do I get there? What were the obstacles you faced in implementing this new model?

All of it was hard. Innovation without implementation is just conversation. You can’t change the role of the customer if you don’t change everything about the company. We trained the team, we changed the technology, and we devoted a significant time so we all see our customers as citizens with rights.

You’ve empowered your customers. Do some of them not take advantage of their rights?

Yes, it’s a different role of citizen for our customers. It’s not just about knowing how much we make from your money. It’s about participation, allocation, wanting to be accountable to a social project.
Are you giving too much information away? Can someone reverse engineer your profits and success?

Go to any bank and ask. Will they tell you how much they are earning with your money? Nobody had done this. When we were thinking about how we would tell people how much their money earns, we were scared. But we did it, and nothing happened. If you tell people, then they know how their decisions are relevant, and they think of themselves as philanthropists.

Was it a lot of work to develop a new accounting system for all this?

We were lucky. When we began, we already had all the information and analytics in place. The question was simply about how to turn the computer screen around, and show it to the customer.

When the model changed from the Board allocating funds to customers allocating funds, what changed in terms of where the money went?

We saw a radical change. The Board used to allocate money to museums, cultural patrimony, operas, etc. But now, customers are allocating funds to people and their needs, the environment, research, etc.

AT THIS POINT, ENRIQUE GOÑI ASKED FOR AUDIENCE QUESTIONS.

When you started in Spain, you did not compete on price, i.e., interest rates. So is the concept of becoming a ‘citizen’ enough to compensate for that and to draw customers?

We felt it would be dangerous to combine a good new strategy with low pricing. In the beginning, it was hard to attract customers, but not now. Banca Civica is the most well-known bank in the blogosphere in Spain. We are also promoting ourselves through our social partners. So it was hard in the first year, but now it’s difficult to stop.

Are you bringing sustainability to banking?

For us, yes. If we give you the ability to look at our investments, you can see where we invest. If we invest in instruments with only high profitability, you’d notice. We were the first Spanish entity to agree to the Equator Principles, a voluntary set of standards adopted by banks to evaluate and manage social and environmental risk in project financing. We make all of our loan information public.

There is much talk about changing the regulation of savings banks in Spain. How will this affect Banca Civica?

All of the trends in regulation support our kind of banking! We feel like the pioneers in this. The new rules are mostly ideas we are promoting.

What has your experience been as far as the reliability of the non-governmental organizations you partner with? How do you evaluate them?

If you are our partner, we give you advice on how to promote yourself, how to manage your organization and be accountable. Right now 76 percent of NGOs in our Spanish platform are obtaining 100 percent of the requested funding with this system. If you want to be on our list, you have to send a memo to our auditors, who will examine and evaluate your organization based on various criteria. If you pass, then you can be on our platform.

“We saw a radical change. Now customers are allocating funds to people and their needs, the environment, research, etc.”