

THE FINANCIAL CRISIS' IMPACT ON ETHICAL FINANCIAL INSTITUTIONS

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Into the broad context of the ethical behavior topic in economy, outlined mainly during the last two decades, the appearance of ethical banking was an event with a particular social, economic and competitive incidence. Banking ethics had become an imperative and a reference point in the context of sustainable development, reevaluating the report between economic and social return. Our study aims to examine the specific characteristics of ethical banks, compared with those of traditional ones, and provides a picture of the extent of this phenomenon in the European area. In addition, we analyze the extent to which the current international context, characterized by uncertainty and turbulence on financial markets, emphasizes the discrepancies existing between the two categories of credit institutions.

Keywords: ethical bank; sustainability indices; ethical financial products; financial crisis; data envelopment analysis.

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Introduction

The idea that the current financial crisis is one of ethical proportions, which requires the focus towards a new fiduciary society, catches more clearly shape and brings in the center of concerns new concepts and approaches to finance and business. Thus, the idea of socially responsible investment or ethical investment is potentiated by the current financial climate, characterized by instability and turbulence on financial markets. In our opinion, we believe it is necessary to link financial performance with social ethics and solidarity, by realizing that socially responsible investing does not represent an impediment to getting the profit, but on the contrary, can yield at least at the level of the one offered by traditional investments products because they have a foundation for long-term vision.

In addition, because the ethical banks use the attracted capital to finance socially responsible projects, who manage in a cautious manner human, financial and environmental resources, may be a favorable assumption in order to restore confidence among investors.

1. The role of ethical banks in enhancing sustainable development

The consistent pursuits for improving the quality of living and the social and economic integration at European level revealed the difficulty of traditional banking systems in granting expertise and financing to investment projects with social impact, and therefore, to finance a particular segment of the economy, known as solidarity based.

The generalization of ethics in banking activity is reflected by the appearance of ethical European banks, whose activity is focused on social and human values, which emphasize the solidarity and responsibility for society and environment. In this context, one can talk about *sustainable banking activity*. This means that banks involve in financing businesses and projects characterized by social, cultural and environmental value-added, as an expression of capitals entrusted by depositors and creditors, which aim to encourage the development of responsible, durable projects.

To facilitate the investment decision by ethical banks was created, for example in Belgium a body named Ethibel that assesses, on the basis of sustainable criteria, the measure in which a company plays a major social role. If this independent certification body radiates a company

from its investment register, then it sends a signal to investors according to which they will review the decision of investing in that particular company.

The involvement of financial institutions into the ethical approach of finance has led to the creation and launch of some indices which include only companies that manifest consistent interests relative to sustainable development. The most relevant are: Advanced Sustainable Performance Index (ASPI), which includes 120 companies in the Euro area, selected according to six criteria that synthesize the performance in terms of sustainable development (human rights, human resources, environment, business behavior, corporate governance, community involvement) and The Ethibel Sustainability Index (ESI), which offers a global perspective on the performance of 132 companies, in terms of financial and social profit.

The ethical banks that operate in EU follow the same mission:

- contribute to the development of a society that favors human dignity and quality of life;
- determine a certain behavior, so that citizens, economic agents and organizations should use the financing obtained in a more responsible manner, to support sustainable development, solidarity and social cohesion;
- offer viable, high quality financial products and services, characterized by transparency in collecting the temporary disposable funds and in allocation on productive destinations, susceptible to generate economic and social value added;
- although they offer the same range of products as traditional banks, ethical banks operate on the strength of a strict investment policy, that takes into account not only the eligibility of the applicant, but also the viability and social impact of the project to be financed.

Ethical banks' aim is to bring into practice the concept of sustainable banking activity, by offering products and services with a direct positive influence on people and environment.

The following table synthesizes the main ethical banks that operate in the European Union, in order to emphasize the fundamental ethical objective adopted by each of them, the concrete impact on society, the source of funds, their ethical destination and other eventual destinations that are beyond the ethical ones.

<i>Objectives</i>	<i>Community involvement</i>	<i>Financing sources</i>	<i>Funds' ethical destination</i>	<i>Other destinations</i>
Italy : Banca Popolare Etica				
Sustainable social and human development, civilly oriented economic projects	Voluntary work; partnerships	Deposit accounts from private citizens, companies, organizations	Social, sanitary, educational services; integration of disadvantaged people in the community; non polluting production techniques; ecological public transport; renewable energy sources; natural heritage.	Loans, investments
Germany : Bank für Sozialwirtschaft				
Specialized in the social and health sectors	Partnerships with cooperative, mutual and non-profit sectors	Deposit accounts from private citizens, companies, organizations	Fights against social exclusion; integration of disadvantaged people in the community; trainings and education; promoting research in health.	Loans, investments, payment transactions

Table 1. Ethical banks (*selective*)—comparative analysis

Switzerland : Alternative Bank				
Subordinates the entire banking activity to the ethical principles, instead of profit increases	Promotes women social emancipation donation of the additional profit	Deposit accounts from private citizens, companies, organizations	Supports equal opportunities for women; issues loans for bio-agriculture, sustainable habitats, renewable energy; culture; health; education	Loans granted to small and medium-sized companies active in environment, fair, social commerce, construction ecology.
UK: Charity Bank				
Subordination of financial services to a charity purpose	100% of savings are directed to charities, voluntary organizations and social enterprises	Deposits from public, charitable trusts, foundations, banks and building societies; donations	Individuals, organizations and the charitable sector, in order to facilitate social change through investments; helps Islamic community organizations	“for profit” companies if the loan is for exclusively charitable purposes
France: La Nef				
Promotes the solidarity based finance	Cooperates with correspondent partenaires, in a voluntary manner, in order to support the local economic development	Deposit accounts, current accounts	Supports the creation and development of individual businesses, associations or companies having as main purpose the improvement of the social and environmental utility.	Projects focusing on environment and society
Sweden: Ekobanken				
The public good and general well being	<i>Account forms directed to specific projects</i>	Deposits from private persons, organizations and companies	Projects within the areas: farming, ecology, health, treatment, children, youth, culture and education.	Grants loans primarily to initiatives with social, environmental and cultural value.
Denmark: Merkur Cooperative Bank				
Having a sustainable impact on society, by using money and finance as tools	Resource saving arrangements, facilities for the handicapped and the socially disadvantaged. Partnerships with voluntary organizations.	Donated funds, deposits	Finances projects which promote a sustainable production, consumption based on real demand, fair living and working conditions for all citizens, projects that help individuals to develop their skills, organic farming, renewable energy,	Finances a wide range of projects and initiatives within the fields of environment, social life and culture

Netherlands: Triodos Bank N.V				
Being a pioneer and a leading innovator	<i>micro credits; partnerships with social investment</i>	Deposits	Finances companies and projects adding cultural value, benefits for people and environment, in fields as renewable energy, social housing,	Avoids investing in arms, tobacco

The financial statements of the most representative ethical banks reveal that their financial intermediation activity gathers customers aware of the importance of social responsibility and solidarity. In Europe, the ranking of ethical banks term the amount of funds with ethical destination places on first place Great Britain, followed by Netherlands, Sweden, Switzerland and France. Therefore, some countries have an unexploited potential for the social value added. However, the money placed in the ethical financial products is not sufficient to influence the financial market and investors' behavior. The critical mass has not been reached yet, the share of capital placed in socially responsible investments being only of 0.43% in Europe. In table 2 we have systematized the most representative distinctive features of ethical and classical banks.

Table 2. Ethical banks versus classical banks

<i>Traditional banks</i>	<i>Ethical banks</i>
The activity is subordinated to the reaching of several quantitative objectives, mainly the market share and profitability.	Operate with a clear set of ethical values, known, accepted and respected at all the hierarchical levels.
The focus is on maximizing the financial gains.	Pursue the obtaining of both financial and social gains.
The investment strategy and risk profile are established by bank's management.	The investment decision belongs, firstly, to customers (depositors, creditors), by choosing the ethical project to be financed with their funds.
Don't provide information concerning the destination of attracted and borrowed funds.	Publish on a regular basis a list with all the investment projects that received financing.
Grants financing without taking into account the ethical behavior of the applicant, or the impact of his actions on society and environment.	Finance those companies whose projects exercise a positive influence on society and environment.

2. Implications of financial crisis on ethical banks

The current financial crisis has trained, due to its magnitude, a number of concerns among policy makers and monetary authorities to address and reduce the effects manifested. While some experts have claimed that government interventions are the only way to rescue the economy, others argue that financial systems must be self-regulating. In this sense, is more often mentioned the idea that an alternative to the traditional banking activity can constitute an antidote to fluctuations faced by financial institutions.

The more unstable financial climate has generated customers' turning to ethical banks, which base their operations on several ethical principles. Thus, the main reasons for which, in the context of current uncertainties, investors are focusing on the ethical banks are:

- minimum investment in financial derivatives;
- no listing of ethical banks on a regulated market, which imply a lower concern for shareholders to aggressively increase profits and the market price of shares;
- do not participate in operations on the interbank market, in the sense that they don't attract funding neither they made investments in other banks. Consequently, ethical banks can't be

negatively affected, by means of the contagion effect, by the vulnerabilities faced by traditional credit institutions;

-transparency in granting loans, by notifying the depositors about the opportunity of the investment. Ethical banks guarantee that each of the projects selected comply with the ethical criteria and would have a positive impact on people and environment.

Although customers' turning towards ethical banks is less attractive from a financial standpoint, as the yield obtained is lower than that offered by traditional banks, in the current context of uncertainty and mistrust in traditional banks, we distinguish the orientation towards ethical products.

Thus, until year-end 2008 ethical banks have increased the number of small clients. For instance, UK profits have increased by over 50%, while the volume of deposits attracted from customers increased by more than 25%. In absolute numbers, compared to traditional banks, ethical ones are the beneficiaries of the new international financial context. According to Barbu, Dumitrescu (2007), the banking systems in Central and Eastern Europe proved to have a high growth potential in terms of traditional banking activity, but modest initiatives relative to the promotion of ethical financial products.

3. Assessing the effectiveness of business ethics in the banking financial crisis

In the following we have evaluated a sample of the most representative ethical banks which have been shown to have a good profitability, both in financial and social terms, even in this turbulent climate, without derogating from the ethical principles pre-established.

To provide a quantitative dimension of the efficiency with which the ethical banks' activity took place during 2007 -2008, we argue that Data Envelopment Analysis (DEA) is the most appropriate method, both because of its advantages (a technique of linear programming, which allows the testing of multi input- multi output models, without defining a functional relationship between input variables and output and without being affected by the multicollinearity problem), but also because of constraints on the data availability on a broad time horizon.

We implemented a model aimed at maximizing results (output oriented), the input variable being represented by the credits, with the output variables: volume of deposits and net profit, as a measure of the efficiency with which a bank manages its assets and liabilities. In defining the concept of efficiency we have taken account of the ethical banks' particularities. Thus, they are especially exposed at the risk of concentration of the loan portfolio in those sectors related to environmental protection, social welfare, culture and education. On the other hand, exposure to liquidity risk is low, as ethical banks hold sufficient liquid assets in the form of deposits with central bank or government bonds.

According to the maximizing output assumption, it is considered that the ethical banking business is characterized by efficiency if the input-output combination allows the achievement of a standard of financial performance governed by the best prudential practice, whose efficiency score is equal to 1. Scores that exceed a value of 1 indicate inefficiencies in the results optimization. The study was conducted using data with annual frequency for a sample of ethical banks operating in the UK, Malta, Germany, Spain, Italy, Netherlands, Belgium and Sweden.

Table 3. Efficiency scores

Ethical banks	Score	loans {I}	net profit {O}	deposits {O}	Benchmarks
Triodos nederlands 2008	140,60%	1	0	1	6 (2,63)
Triodos belgium 2008	103,89%	1	0	1	6 (1,14)
Triodos UK 2008	134,71%	1	0,05	0,95	6 (1,27) 14 (0,13)
Triodos spain 2008	356,26%	1	0	1	6 (1,08)

Triodos nederlands 2007	137,72%	1	0,08	0,92	6 (1,89) 14 (1,40)
Triodos belgium 2007	100,00%	1	0,03	0,97	13
Triodos UK 2007	128,80%	1	0,09	0,91	6 (1,01) 14 (1,06)
Triodos spain 2007	308,08%	1	0	1	6 (0,81)
Banca Etica italy 2007	172,48%	1	0	1	6 (2,33)
Ekobanken sweden 2007	214,74%	1	0	1	6 (0,13)
Co-operative bank UK 2008	195,69%	1	0	1	6 (2,68)
Co-operative bank UK 2007	197,86%	1	0	1	6 (2,40)
Charity Bank UK 2007	162,86%	1	0	1	6 (0,06)
APS malta 2007	100,00%	1	1	0	4
Merkur germany 2007	192,72%	1	0,12	0,88	6 (28,6) 14 (75,3)

The efficiency scores obtained showed that APS Bank in Malta and the Triodos branch in Belgium recorded a score of 100% in both 2007 and 2008, therefore, the basic objective of ethical banks, to have sufficient liquid assets in order to maintain a reduced exposure to insolvency risk and lack of liquidity risk has been fulfilled. This performance is even more important since it was obtained during the turmoil that has characterized the international financial markets last year. During the period analyzed, the less efficient proved to be the Triodos branch in Spain, for which we obtained an efficiency score of 308.08% in 2007 and 356.26% in 2008. The result does not surprise us, given that it is the only ethical bank that recorded a value of the liquidity indicator credits/deposits above one.

Conclusions

Currently, we assist at a reconciliation process between two notions longtime perceived as being contradictory, namely profitability and solidarity. The trend is to incorporate in banking activity an ethical vision on projects funded, competitive prices and specialized consulting. Apart from being a current fashion, corporate social responsibility is manifested more significantly by involving companies in social projects such as education, environmental protection and humanitarian actions. In Romania, only one third of companies apply properly this strategy because it does not generate immediate results, and in the context of economic decline is less attractive.

In this European context we believe is timely to intensify concerns in the Romanian banking system, in terms of awareness of the credit institutions to support ethical and solidarity investments. A proposal in this respect consists in redirecting the activity of CEC Bank to the financing of investments with a positive impact on the environment, as it has a large territorial network of branches and its portfolio of clients is mainly oriented towards retail and therefore they would be more receptive to ethical considerations.

Also, we note the concerns of several credit institutions (BCR, BRD, BancPost) on the promotion of corporate social responsibility and involvement in the financing of activities with mainly social impact. In our opinion, BRD can be positioned on the first place in a top of the most ethical banks in Romania, since its main shareholder, Societe Generale is included in the two indices of socially responsible investments, namely, ASPI and Ethibel. In front of new challenges generated by the current financial crisis, the Romanian banks should adopt alternative strategies, to increase customers' confidence and to configure a banking activity based on social responsibility.

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