



# **MIND THE GAP**

**Benchmarking credit policies of  
international banks**

**Executive Summary**

**BANK** *Track*

## **Introduction**

Financial institutions play a key role in every segment of human activity. People, companies and governments worldwide depend on the financial services of commercial and investment banks. While their financial services are used too often for activities which are harmful to the environment, human rights, and social equity, banks can also be powerful agents of change towards sustainable development.

To become such an agent, banks need to address issues that are critical to all their activities and develop and implement clear credit policies that cover their key sectors of operation. Based upon international treaties, guidelines and best practices, these policies need to define how a bank aims to work with its clients to address such diverse issues as securing the human rights of indigenous people, workers and other stakeholders, how to combat climate change, prevent loss of biodiversity, and contain the spread of toxics and many other sustainability issues.

Merely developing such policies is not enough; even more important is the integration into the day to day operations of the bank. All investment and lending decisions eventually need to be based upon these policies, and lead to the rejection of –prospective- clients and transactions which do not meet criteria defined in the policies. Proper implementation needs to be further supported by commitments to transparency and accountability.

With *Mind the Gap*, BankTrack publishes the findings of a ten month research project aimed at stimulating large, international banks to develop and implement world-class credit policies in a transparent and accountable way.

## **Methodology**

The report evaluates the credit policies of a selection of 45 internationally operating banks on three core dimensions:

- Content of seven sector and seven issue policies
- Transparency and accountability of operations
- Implementation of policies in lending practice

The selection of banks was based principally upon the 2006 rankings of the largest banks in the world according to total assets, syndicated loans, project finance and underwriting. To avoid an over-representation of banks from the United States, Japan, the UK, Germany and France, the smallest banks thus selected from each of these countries were replaced by banks which can be considered regional leaders in Asia, Australia, Latin America, other European countries, Canada and the Middle East.

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Selection of 45 banks for the benchmark			
ABN AMRO	Netherlands	JPMorgan Chase	United States
ANZ	Australia	KBC	Belgium
Banco Bradesco	Brazil	Merrill Lynch	United States
Banco do Brasil	Brazil	Mitsubishi UFJ	Japan
Banco Itaú	Brazil	Mizuho	Japan
Bank Mandiri	Indonesia	Morgan Stanley	United States
Bank of America	United States	Nedbank	South Africa
Bank of China	China	Rabobank	Netherlands
Barclays	United Kingdom	Royal Bank of Canada	Canada
BBVA	Spain	RBS	United Kingdom
BNP Paribas	France	Santander	Spain
China Construction Bank	China	Saudi American Bank	Saudi Arabia
Citigroup	United States	Scotiabank	Canada
Crédit Agricole	France	Société Générale	France
Credit Suisse	Switzerland	Standard Bank	South Africa
Deutsche Bank	Germany	Standard Chartered	United Kingdom
Dexia	France	State Bank of India	India
Fortis Bank	Belgium	Sumitomo Mitsui	Japan
Goldman Sachs	United States	UBS	Switzerland
HSBC	United Kingdom	UniCredit	Italy
ICBC	China	WestLB	Germany
ING	Netherlands	Westpac	Australia
Intesa San Paolo	Italy		

Some of the banks selected are also involved in other financial sector activities-such as insurance and asset management-, while others are not. Given these differences, *Mind the Gap* is focusing predominantly on financial services which all banks have in common: all types of credits and loans, including the underwriting of stock issuances. The study evaluates to what extent these types of activities are guided by effective and world-class social and environmental credit policies.

The report defines seven socially and environmentally sensitive sectors and seven crucial sustainability issues for which all banks need to develop appropriate credit policies. These are listed in the following table:

<b>Sectors and issues to be covered in credit policies</b>	
<b>Sectors</b>	<b>Issues</b>
Agriculture	Biodiversity
Dams	Climate change
Fishery	Human rights
Forestry	Indigenous peoples' rights
Military industry and arms trade	Labour rights
Mining	Taxation
Oil and gas	Toxics

*Mind the Gap* then benchmarks the content of the banks' existing credit policies in these areas against international standards, as established in international conventions and treaties, guidelines developed by multi-stakeholder initiatives and international best practices. These international standards are described extensively for each issue and sector, leading to a definition of what can be considered best practice within each area.

The existing -or absent- policies of banks in each area were scored against the best practices identified, leading to a score ranking from 0 to 4 with 0 for no policy available; 1 for vaguely worded or 'aspirational' policy; 2 for policies that include some important elements but are not overall consistent; 3 for a well defined policies not meeting one or two elements and 4 for policies meeting world class standard. When a bank has demonstrated convincingly that it is not active in one or more of the sectors included in this research, the absence of a sector policy was not scored and the bank received an 'X' in the scoring table.

## **Findings on sector and issue policies**

Many banks have now adopted some form of credit policies, although a fairly large group of banks is still lagging behind. As a first step, many banks are undersigning one or more of the collective standards existing in the financial sector such as for example the UNEP Financial Initiatives, the Global Compact or the Equator Principles. The relevance of such collective standards is fairly limited, as most of them cover only a limited number of sectors and issues and as the content is usually vaguely worded and aspirational.

With the relevance of collective standards being limited, banks need to develop adequate and robust credit policies themselves. No bank has developed credit policies yet on all seven sectors and seven issues covered in this report, but various banks have developed one or more of such policies. Ten banks have developed no sector or issue policies at all.

The following table provides an overview of how many banks have developed policies on the sectors and issues covered in this report.

<b>Number of banks which have developed sector and issue policies</b>			
<b>Sector policies</b>	<b>No. of banks</b>	<b>Issue policies</b>	<b>No. of banks</b>
Agriculture	9	Biodiversity	6
Dams	4	Climate change	31
Fisheries	3	Human rights	12
Forestry	14	Indigenous peoples	6
Military industry and arms trade	12	Labour	4
Mining	4	Taxation	1
Oil and gas	4	Toxics	3

While the number of credit policies developed by the 45 banks provides an indication of the attention given to extra financial risk management in various sectors, it is more important to assess the content of these policies. A large number of poor policies will not make much of a difference, while one good policy can have a considerable influence on how a bank conducts business.

It is therefore encouraging to see that some banks indeed have developed sector and issue policies which meet or almost meet best international standards. These policies can set an important example for other banks. However, the overall quality of the credit policies developed by the 45 banks is fairly poor. Many policies hardly exceed a vague and aspirational level and often lack clear criteria and objectives. The content of a number of policies in existence, which might have a good quality, are not disclosed at all.

A view at the table below shows that the large majority of the 45 banks needs to devote significantly more attention to developing clear policies on key sectors and issues that meet best international standards. The few banks which have already developed good policies on some sectors and issues should develop similar, or even better policies on sectors and issues not yet covered. The detailed descriptions of best practices contained in the full report may provide useful guidance to banks taking this challenge serious.

<b>Policies</b>	<b>Agriculture</b>	<b>Dams</b>	<b>Fishery</b>	<b>Forestry</b>	<b>Military industry</b>	<b>Mining</b>	<b>Oil and Gas</b>	<b>Biodiversity</b>	<b>Climate change</b>	<b>Human rights</b>	<b>Labour rights</b>	<b>Indigenous peoples</b>	<b>Taxation</b>	<b>Toxics</b>
ABN AMRO	1	2	0	1	1	1	1	1	1	1	1	1	1	0
ANZ	0	2	0	0	0	1	1	1	1	2	1	1	0	0
Banco Bradesco	0	2	0	0	0	1	1	1	1	1	1	1	1	0
Banco do Brasil	1	2	1	1	0	1	1	1	1	1	1	1	2	0
Banco Itaú	0	2	0	0	0	1	1	1	1	1	1	1	1	0
Bank Mandiri	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Bank of America	0	2	0	2	0	1	1	1	1	2	0	1	0	0

Policies	Agriculture	Dams	Fishery	Forestry	Military industry	Mining	Oil and Gas	Biodiversity	Climate change	Human rights	Labour rights	Indigenous peoples	Taxation	Toxics
Bank of China	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Barclays	1	2	1	1	1	1	1	1	1	1	1	1	1	0
BBVA	0	2	0	0	1	1	1	1	1	1	1	1	1	1
BNP Paribas	0	0	0	0	0	0	0	1	1	1	1	1	1	0
CCB	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Citi	0	2	0	2	0	1	1	1	1	1	1	1	0	0
Crédit Agricole	0	2	0	0	0	1	1	1	1	1	1	1	1	0
Credit Suisse	0	2	0	0	0	1	1	1	1	1	1	1	1	0
Deutsche Bank	0	0	0	0	0	0	0	1	1	1	1	1	1	0
Dexia	X	X	X	X	2	X	1	1	1	2	1	1	1	0
Fortis Bank	2	2	0	2	2	1	1	1	1	2	1	1	1	0
Goldman Sachs	1	0	0	2	0	1	1	1	0	1	0	2	0	0
HSBC	1	4	0	3	0	3	2	2	2	2	1	2	1	0
ICBC	0	0	0	0	0	0	0	0	0	1	0	0	0	0
ING	2	2	0	2	2	2	2	2	1	1	1	2	1	0
Intesa San Paolo	0	2	0	0	3	1	1	1	1	1	1	1	1	0
JPMorgan Chase	0	2	0	2	0	1	1	2	1	2	1	3	1	0
KBC	0	2	0	0	3	1	1	1	1	2	1	1	1	0
Merrill Lynch	0	0	0	2	0	1	1	0	0	1	0	1	0	0
Mitsubishi UFJ	0	2	0	0	0	1	1	1	1	1	1	1	1	0
Mizuho	0	2	0	0	0	1	1	1	1	1	1	1	1	0
Morgan Stanley	0	0	0	1	0	0	0	1	0	2	0	1	0	0
Nedbank	0	2	0	0	X	1	1	1	1	1	1	1	1	0
Rabobank	2	X	3	1	2	1	X	1	2	2	3	3	3	0
Royal Bank of Canada	0	2	0	2	2	1	1	1	1	1	0	1	0	0
RBS	0	2	0	0	0	1	1	1	1	1	1	1	1	0
Santander	0	0	0	0	0	0	0	1	1	1	1	1	1	0
Saudi American Bank	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Scotiabank	0	2	0	0	0	1	1	1	1	1	0	1	0	0
Société Générale	0	2	0	0	1	1	1	1	1	1	1	1	1	0
Standard Bank	0	0	0	0	0	0	0	0	0	1	0	0	0	0
Standard Chartered	0	2	0	0	2	1	1	1	1	1	1	1	1	0
State Bank of India	0	0	0	0	0	0	0	0	0	1	0	0	0	0
Sumitomo Mitsui	0	2	0	0	0	1	1	1	1	1	0	1	0	0
UBS	0	0	0	0	0	1	1	1	1	1	1	1	1	0
UniCredit	0	2	0	0	0	1	1	1	1	1	1	1	1	0
WestLB	0	2	0	0	0	1	1	1	1	1	1	1	1	0
Westpac	2	2	0	0	0	1	1	1	1	2	1	1	1	0

## **Findings on transparency & accountability**

For banks, transparency and accountability are even more important issues than for other companies. As financiers, they share a certain level of responsibility for the impacts of their clients' operations with the managers and owners of these companies. Banks therefore have a responsibility to inform the public not only about their own practices, but also about their clients' activities for which they provide financing.

The report scores the transparency and accountability practices of the banks on the following issues, following the logic for scoring of the sector policies, with 0 for no transparency/accountability and 4 for world class standard:

- Institutional transparency
- Deal transparency
- Institutional accountability
- Deal accountability

Progress is apparent with regard to institutional transparency. The report notes that 34 out of the 45 banks now meet some basic level of transparency by publishing an externally verified annual sustainability report, following the basic requirements of the GRI Sustainability Reporting Guidelines and its Financial Services Sector Supplements. Hardly any bank exceeds this basic level, for example by offering detailed information on the credit policies it has developed and the efforts that are undertaken to implement them.

Only 18 banks show a basic level of institutional accountability, by hiring external auditors to audit its sustainability report and policies. No bank exceeds this level by publishing the results of these audits.

With regard to individual deals, the level of transparency is much poorer. None of the banks publishes a list with the basic details of all the deals it is involved in. Some 22 out of 45 banks do not even publish a sectoral or regional breakdown of their portfolio.

Even fewer banks show any form of accountability to local communities and other stakeholders affected by specific deals the bank is involved in. Only 4 banks have set up an independent Bank Policy Complaint Mechanism accessible by external stakeholders.

The following table shows that overall, transparency and accountability of the 45 banks stays below best international standards. Banks should carefully consider how they can improve their transparency and accountability mechanisms.

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	Institutional transparency	Deal transparency	Institutional accountability	Deal accountability
ABN AMRO	2	1	2	1
ANZ	2	0	2	0
Banco Bradesco	2	0	2	0
Banco do Brasil	2	0	0	3
Banco Itaú	2	0	2	0
Bank Mandiri	0	0	0	0
Bank of America	2	0	1	0
Bank of China	0	0	0	0
Barclays	2	1	1	0
BBVA	2	1	1	0
BNP Paribas	1	0	2	0
CCB	1	1	0	0
Citi	2	0	1	0
Crédit Agricole	2	1	2	0
Credit Suisse	2	0	1	0
Deutsche Bank	2	1	2	0
Dexia	2	1	1	0
Fortis Bank	2	0	2	0
Goldman Sachs	1	0	0	0
HSBC	3	0	1	0
ICBC	0	0	0	0
ING	2	0	2	1
Intesa San Paolo	2	1	2	1
JPMorgan Chase	1	1	0	0
KBC	2	1	2	0
Merrill Lynch	0	0	1	0
Mitsubishi UFJ	2	0	0	0
Mizuho	2	1	0	0
Morgan Stanley	0	0	0	0
Nedbank	2	1	2	0
Rabobank	2	1	2	3
Royal Bank of Canada	2	1	1	0
RBS	2	1	2	0
Santander	2	1	0	0
Saudi American Bank	0	1	0	0
Scotiabank	2	1	1	0
Société Générale	2	1	0	0
Standard Bank	2	1	0	3
Standard Chartered	2	1	1	0
State Bank of India	0	0	0	0
Sumitomo Mitsui	2	1	1	0
UBS	2	0	2	0
UniCredit	2	0	2	0
WestLB	2	0	2	0
Westpac	2	1	2	3



## Dodgy deals

Good policies are only the starting point for banks to move forward on the road towards sustainability. The key issue is how the policies are being implemented in the day to day operations of the bank. Their financing and investment decisions should be consistent with the criteria and objectives which banks describe in their credit policies. Banks' credit portfolio should reflect the proper implementation of their policies.

Despite its importance, the implementation dimension could not be evaluated in the report in a similar quantitative way as the other two dimensions. Instead, the report takes a different approach, by describing 30 recent *Dodgy Deals*: controversial projects and clients to which one or more of the 45 banks have recently provided financial services. The deals range from dams to mines, from controversial weapons to child labour, from oil pipelines to oil palm plantations, and from pulp mills to coal-fired electricity plants. Short summaries are featured in the full report. Further and up to date information on each deal is available online on the BankTrack website.

As almost all banks described in this report are involved in one or more of the *Dodgy Deals*, this raises questions about the effectiveness and the proper implementation of the credit policies. For banks which have not yet developed adequate and robust credit policies for a particular sector but are found to be involved in a deal it stresses the urgency to develop and implement such policies. For banks which have developed some adequate or good policies, their involvement in one or more *Dodgy Deals* shows there is no reason for complacency.

## Final remarks

*Mind the Gap* provides a snapshot of where 45 large, international banks stand today, December 2007, in developing adequate credit policies on critical sectors and issues. It underlines that these policies should be implemented in a rigorous and effective manner, to ensure that no clients are financed which do not meet the criteria contained in these policies.

While this snapshot does not provide a rosy picture, BankTrack acknowledges that several banks have made substantial progress over the past few years. Many banks also continue to move on their sustainability policies. This is illustrated by the fact that several banks reported having policies under development which are still in draft format. These could not be taken into account in this benchmark.

With the publication of *Mind the Gap* and through the associated benchmark research project, BankTrack aims to encourage all 45 banks -as well as their peers not covered in this report- to move further and faster. Low scores should be regarded by banks as an encouragement to improve on their policies and practices. When a bank finds itself linked to a specific *Dodgy Deal* it should regard this as a strong encouragement to devote attention to the proper implementation of its policies in day to day operations.

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**The full report 'Mind the Gap – Benchmarking credit policies of international banks' is available online at the [BankTrack website](#). A print copy for purchase is available upon request.**

**All findings of the BankTrack benchmark research project, including a set of profiles with all relevant documents and policies of the 45 banks covered in the report, can be found at the BankTrack website, under section: 'Mind the Gap'.**

**Further information on the dodgy deals is available online. The deals are regularly updated.**

## **About BankTrack**

BankTrack is an international network of 27 (as of December 2007) member and partner Non Governmental Organisations monitoring activities and investments of international banks, with the aim of steering the financial sector towards sustainability. BankTrack is coordinated from a secretariat based in Utrecht, the Netherlands.

The production of this report has been a collective undertaking of all groups within the BankTrack network. As such, it reflects the opinion of all BankTrack member groups.

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