

The case for triple-bottom-line banking

How doing good means doing well

Some financial institutions are prospering despite economic instability and scandal while others are trying desperately to stay afloat. What has set some institutions up for success?

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Strong banks, strong brands

While the reputations of all the largest U.S. banks have suffered since the credit crisis emerged in the summer of 2007,¹ some smaller national and regional banks and credit unions have fared far better. Their brands remain strong, their missions solid and their finances sound. What do these institutions have in common? A commitment to their triple bottom line. That is, they measure success not only by profits, but also by their positive impact on the community and the environment.

In this paper, we examine ShoreBank, Vancity and e3bank—organizations with strong triple-bottom-line programs—to find out how banks and credit unions can build, preserve and capitalize on a good brand through corporate social responsibility (CSR).

ShoreBank shores up local community

ShoreBank, the first for-profit community development and environmental bank in America, provides financing to renovate and purchase housing in low- and moderate-income neighborhoods and fund sustainable small businesses and nonprofits. For example, in Chicago, many single- and multi-family buildings are neglected, abandoned or in need of updating, but residents are unable to obtain the capital to make necessary improvements. ShoreBank works with potential landlords and property owners, screens them carefully, and approves loans that make buildings more livable and energy efficient. Since 1973, the company has financed \$3.5 billion toward the renovation and purchase of more than 50,000 units of available housing.²

ShoreBank also finances the decontamination and redevelopment of abandoned manufacturing sites, and helps businesses find funding to change waste-intensive processes and reduce or eliminate the use of toxic materials. In 2007, the company's conservation loan originations totaled \$185 million,³ money that is also used to protect and revitalize land and water.

ShoreBank's commitment to all three bottom lines is what Brian Berg, vice president of the bank's corporate communications, thinks is enabling the company to weather the economic storm while showcasing how it differs from mainstream banks.⁴ "We've never offered adjustable subprime loans," Berg said, adding, "We still do banking in the personal fashion, verifying all the information on a loan application, including income and job."

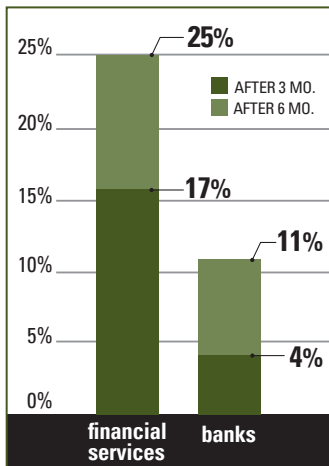
1 "Finance - Consumer trust overdrawn," *Ethical Corporation*, December 2008.

2 Interview with Brian Berg, February 2009.

3 "Leading the Way, 2007 Triple-bottom-line Report," ShoreBank Corporation, 2007.

4 Interview with Brian Berg, February 2009.

Green advantage¹³



Note: Indexed stock prices at ~3 months = September 8, 2008 and ~6 months = May 19, 2008 to November 24, 2008.

A recent study shows that companies engaging in sustainable practices may be protected from value erosion during a financial crisis. The stock prices of sustainability-focused financial services companies outperformed their peers by 25 percent between May and November of 2008; sustainability-focused banks outperformed their peers by 11 percent.

In fact, when the company noticed individuals flocking to risky loans, ShoreBank attended federal and city government housing fairs and reached out to potential buyers, warning them of the pitfalls associated with nontraditional mortgages. ShoreBank also created a mortgage rescue product early on. Launched in fall 2007, Rescue Loan helps homeowners with loans through other institutions to refinance and get a 30-year fixed-rate mortgage. More than 170 Chicago-area families have benefited, though falling home prices have made it difficult to help more people. Homeowners who find themselves “upside down,” or owing more than their houses are worth, are much less likely to qualify.

ShoreBank’s long-term support of social and environmental issues has cultivated a strong image of the bank as community champion and trusted advisor. When the markets crumbled, ShoreBank wasn’t lumped in with the rest of the financial industry. The bank’s ongoing communications about its programs, and its foresight in product offerings set it apart and allowed it to prosper.

ShoreBank’s deposits grew significantly between September 2008 and February 2009,⁵ thanks to individuals and large philanthropic organizations. “[People are] looking for safety and security going forward and to do business with an organization they trust,” Berg said. “In this time, people particularly appreciate the work we’re doing.” The bank has received an increasing number of requests from churches and community organizations for bank representatives to speak about the markets, the housing crisis and the bank’s work. ShoreBank is a financial institution whose values are consistent with those of its customers and, especially during this crisis, a bank that customers have faith in.

Berg believes other banks could learn from ShoreBank’s example: “We have demonstrated that you can serve low- to moderate-income communities and do well while doing good,” he said.

Vancity distances itself from Wall Street

Vancity is a Canadian credit union headquartered in Vancouver, British Columbia. Like ShoreBank, Vancity measures its success by its triple bottom line and focuses its products and dollars on fighting poverty, acting on climate change and growing the social economy. Every year, Vancity’s Shared Success program gives an impressive 30 percent of the credit union’s profits to members and the community. For example, Vancity provides members a rebate on loan interest paid and furnishes community grants.

5 Interview with Brian Berg, February 2009.

Vancity was the first financial institution to become “carbon neutral,” offsetting its carbon footprint from direct and indirect energy use, business travel, employee commuting and paper use. The company even helped establish a Canadian market for offsets, purchasing 6,000 tonnes of offsets to achieve its carbon neutral goal, according to the 2006-07 Accountability Report.⁶ The credit union also offers products that promote sustainability. For example, customers get better loan terms when they purchase efficient cars or make energy-efficient home upgrades. Vancity’s mutual funds allow customers to invest in companies that use progressive social, environmental and corporate governance practices.

While they are not entirely unaffected, Canadian financial institutions are not facing the same crisis as those in the United States. Eighty-five percent of Canadians are confident in their banks, according to a recent survey,⁷ and Canadian financial institutions haven’t suffered the same brand damage as similar U.S. institutions. However, Vancity’s ongoing commitment to CSR remains a key differentiator when it’s compared with other Canadian financial institutions, and certainly with their flailing U.S. counterparts.

Vancity has run a series of smart, headline-driven ads that poke fun at Wall Street and CEO compensation:

- “Our members fund our members, so we don’t depend on Wall Street for things that are important to your street.”
- “We’re 180 degrees from Wall Street, and for good measure an extra 3,916 km too.”
- “Last year we gave \$5.2 million back to our members, and no, by ‘members,’ we don’t mean CEOs.”⁸

Vancity has found that strengthening its brand and differentiating themselves from the big U.S. institutions has been a smart way to build customer trust. “It’s not a bad time to go out with a reinforcing message,” said Patrick Gill, brand and enterprise marketing communications manager. “We did get some feedback from branches that some people were coming in asking if Vancity was safe. We thought it was a good time to do some reassurance.”

Advertisements that reference the credit union’s commitment to the community and environment have the highest recall rates, Gill said, which is why Vancity started evolving its marketing in 2005. Its earlier messages

⁶ “2006-07 Accountability Report,” Vancity, 2006/2007.

⁷ “Oh Canada! We believe in our Canadian Banks,” PricewaterhouseCoopers, February 2009.

⁸ Interview with Patrick Gill, February 2009.

followed cyclical financial needs—such as mortgage advertisements in the spring and summer, and investment campaigns in the fall. The change positioned Vancity to make the most out of a bad market situation. Its reputation is solidly built around supporting the community, being a good neighbor and doing what is right—aspects that the public finds sorely lacking on Wall Street. Communicating its uniqueness seems to be paying off: Vancity has seen a 30 percent membership growth during the past three years,⁹ and its 2008 earnings were above target.¹⁰

Gill believes a lack of regulatory oversight led to the current economic situation. He thinks stronger system of checks is necessary to rebalance the current priority placed on profits—and that a clearer focus on the triple bottom line can help. “It might enable more informed or broader thinking,” he said. Referring to what has happened on Wall Street, he added, “It felt like greed just ran wild. A commitment to the triple bottom line might act as kind of a check and, in the recovery, it might help you gain back customers you lost or gain new customers.”

e3bank spots opportunity in downturn

Philadelphia-area startup e3bank plans to open its doors in June 2009. While it might seem counterintuitive to start a bank when the financial industry is suffering, e3bank president and CEO Frank Baldassarre believes the timing couldn’t be better. Big banks, in contrast, are focused on cleaning up toxic assets and have their eye off the ball; additionally, e3bank is being built on a triple-bottom-line business model, which Baldassarre thinks the public is now eager for.¹¹

“It’s our belief that a single-bottom-line world got us to the point we’re at today,” Baldassarre said. “Our culture and our financial services sector contributed to the situation we’re in as a nation. Now is a great time for people to hear a different belief system. It didn’t resonate five years ago, but it resonates today. We feel now is the perfect time.”

As a retail and commercial bank, e3bank will offer a complete list of products, all of which will be geared toward helping people live more sustainably. For example, Green Assist will help individuals secure funding to make environmental upgrades to their home, find the right contractor or installer, and apply for any government rebates with a single application.

9 Interview with Patrick Gill, February 2009.

10 Vancity letter to members, February 2009.

11 Interview with Frank Baldassarre, March 2009.

The bank is also finding ways to reduce the footprint of its daily operations, such as using videoconferencing, eliminating paper checks and avoiding an extensive branch network.

Baldassarre plans to use the Internet and social networking tools to spread the word about the e3bank brand and its mission. Whether this leads to new customers or not, he hopes to encourage people to take a closer look at where they bank. He feels that banking through large money centers, including the nation's largest banks, perpetuates our current problems, whereas local banks and bankers support local living economies.

While there are approximately 8,500 banks in the United States, about 6 percent of those have received funds from the government's Troubled Assets Relief Program.¹² In other words, most financial institutions were not involved in creating the current financial conditions, Baldassarre said. "It bothers me that a small group of banks has had such a huge negative impact on the trust of American people," he said.

Baldassarre believes smaller banks can help turn the economy around faster and regain public trust. In addition to being less affected by toxic assets, smaller banks know local businesses, understand local communities and can make good loans quickly. "We see e3bank as an answer," he said. "We'll be part of that solution."

Financial CSR: Not an antidote, but a bellwether

As ShoreBank and Vancity's experiences demonstrate, financial institutions that commit to corporate social responsibility, back up their pledge with actions and communicate their position clearly are uniquely prepared to build and protect their brands—and even prosper—during market downturns. What's more, brands like e3bank can feel confident about opening their doors in today's climate because their business models and images set them apart from financial institutions driven by profit alone. These triple-bottom-line banks and credit unions offer new and innovative ways to gauge success and weather financial market storms—ways that not only help the larger community and environment, but foster the long-term success and profitability of a brand.

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¹² Calculations based on data from "Show Me the TARP Money," ProPublica, April 2009.

¹³ "Green! Winners: The performance of sustainability-focused companies during financial crisis," A.T. Kearney, 2009.