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ESG in Banking: The future of the Financial sector

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Introduction

- Banks are increasingly recognizing the importance of adopting a responsible and sustainable approach to their operations, considering the impact it has on their long-term profitability and reputation.
- The literature on ESG performance in the financial sector has increased considerably over the last decade (Galletta et al., 2022).
- The integration of Environmental, Social, and Governance (ESG) factors into the banking sector offers significant advantages, including risk reduction, enhanced financial performance, and stronger relationships with investors and customers (Olteanu et al., 2023).
- While sustainability has become a strategic direction for many companies due to legislative changes, market pressure, and competition, banks have taken the lead in educating their communities on sustainability topics. They implemented ESG courses to help employees understand the impact each of us has on resources, food waste, energy efficiency measures, and how to make responsible and eco-friendly shopping choices.

Introduction

- A key pillar of the financial sector, banking plays a crucial role in achieving sustainable development. As sustainability becomes a defining trend within the industry, investors must prioritize sustainable and responsible investing. This means analyzing factors like corporate social responsibility (CSR), corporate governance structures, and environmental practices when making investment decisions.
- ESG policies negatively affect operational and market performance in the banking sector, suggesting that, for example, Italian banks have not fully embraced strong sustainability procedures (Menicucci & Paolucci).
- As a result, banks face a range of risks, including operational, liquidity, and credit risks arising from their business activities. Within the banking sector, ESG risks represent a novel category of risk (Isik, 2013).
- An important challenge of integrating ESG in managerial strategies is the lack of universally accepted sustainability standards and regulations. The absence of clear and harmonized frameworks can create uncertainty for banks operating in different jurisdictions and make it difficult to compare their sustainability performance.

Research Purpose

- The financial sector plays an important role in driving economic growth and well-being of society. With growing global concerns over environmental degradation and social inequities, the concept of sustainability has emerged as a critical imperative for businesses across all industries, including the banking sector. This research aims to present the significance of sustainability in banking, exploring its multifaceted dimensions and the compelling reasons why financial institutions must embrace sustainable practices.
- The main objective of this study is to help researchers and business community to better understand the ESG knowledge base in banking research.

Key Objectives:

Examine the concept of sustainability and its relevance to the banking sector.

Investigate how important is ESG for consumers when choosing a banking provider

The findings will contribute to the research on sustainable finance topics and offer valuable insights for banks, policymakers, and other stakeholders seeking to promote sustainable practices within the financial industry.

Methodological Approach

- According to Chelcea (2022), in-depth interviews generate specific problems and provide researchers with several drawbacks while doing qualitative research. Using these data-gathering techniques, we want to gain a thorough knowledge of the mechanisms that cause their development and sustain their emergence from the viewpoint of experts in the economic field.
- To gain a comprehensive understanding of the significance of sustainability in the banking sector, a qualitative research approach was employed, utilizing in-depth interviews with experts.
- An interview guide was developed to facilitate focused discussions while allowing for flexibility and adaptation to individual respondent perspectives. The interview guide encompassed a range of topics related to sustainability in banking, including the definition and dimensions of sustainability, the drivers and benefits of sustainable practices, and the challenges and opportunities associated with sustainability implementation in the banking sector.
- The qualitative approach, with its emphasis on in-depth interviews, enabled a nuanced understanding of the participants' experiences, perceptions, and motivations regarding sustainability in banking. The data collected provided valuable insights into the complexities of this topic.

Methodological Approach

Category	Criteria
A	Seniority with over 3 years of experience in the banking sector
B	Financial-banking experts or consultants currently working in another field
C	Employees who have held a management position for at least 3 years in the banking sector
D	Employees of public institutions in the financial sector for at least 3 years
E	At the time of the interview, they are specialists in their field of activity, such as seniors or managers.

To ensure the quality of information obtained from the interviews, we have developed a set of respondent selection criteria to guide the research process. These criteria are outlined in the following table.

Methodological Approach

Respondent	Financial-Banking Experience	Criteria Met	Current Position
I-1	20 years	D, E	Human Resources Director
I-2	15 years	A, E	Regional Branch Director
I-3	10 years	C, B	Senior Auditor
I-4	10 years	A, E	Director of Communications
I-5	5 years	A, B	Journalist and Writer
I-6	4 years	B, E	Senior Consultant
I-7	18 years	A, B	Organizational Training and Development Expert
I-8	13 years	A, B	Financial Consultant
I-9	8 years	A, B	Director of Capital Markets and Investor Relations
I-10	5 years	D, E	Senior Inspector
I-11	15 years	A, C, E	Branch Director
I-12	10 years	A, C, E	Product Owner
I-13	20 years	A, B, D, E	Director
I-14	8 years	C, E, D	Unit Manager

The interviews were conducted online in a recorded format and were interpreted using the NVivo software program, which ensures efficiency and effectiveness in data analysis (Massaro, Dumay & Garlatti, 2015). This software is an important part of interpreting qualitative research data as it brings accuracy to the information obtained from the research (Zamawe, 2015).

Key Results of the research and brief Discussions

Consumers and Sustainability in the Banking Sector: A Need for Education and Awareness

- Consumers are not attentive to the sustainability aspect when choosing to work with a bank. This is due to both education and the fact that financial institutions do not have as significant an impact on the environment as processing or retail industries, for example.
- An important aspect is highlighted by I-3: "I see companies that base their marketing campaigns on their sustainability and efforts in this regard, but I don't think we are there yet as a people, as education. We should, but neither governments or companies pay close attention to these aspects. We should look more at this sector."

How important is ESG in choosing a banking provider	NVivoRecurrence	Frequency	Mentioned by
<i>Negative</i>	5	High	I-11, I-3, I-7, I-1, I-4
<i>Neutral</i>	3	Medium	I-5, I-6, I-9, I-12, I-13, I-14
<i>Positive</i>	2	Low	I-10, I-2, I-8

Key Results of the research and brief Discussions;

- For the consumer, it remains an area to be explored, most likely in the future, as I-4 nuances: "I am convinced that consumers does not consider sustainability that important. I have seen some studies showing that a customer looks at the CSR area of a company, and somehow studies confirm that the new generation is more attentive to this area. For most of our customers, sustainability is the last element that influences their choice when they choose to work with a bank.
- For banks, investing in sustainability, it also brings some benefits. By financing sustainable projects, such as renewable energy development and energy-efficient buildings, banks can contribute to environmental protection and mitigate the risks associated with climate change.
- Additionally, adopting sustainable practices within their own operations can reduce banks' environmental footprint, enhance their brand reputation, and attract environmentally conscious customers.

Key Results of the research and brief Discussions;

Banks should intensify their efforts in the area of sustainability

- Banks began their journey towards sustainability a few years ago. First and foremost, they have launched green products and sustainability education programs for employees and clients.
- Now, banks are in a diagnostic phase, evaluating industries and clients, and working to set concrete ESG objectives.
- The benefits of implementing sustainability are generated from supporting the community and consolidating the efforts made in recent years. The goal of banks is to generate prosperity, and besides their commitment to supporting education, they should be open to transparent ESG communication. They have embarked on a sustainability journey and have launched products such as energy efficiency loans for companies, eco-friendly leasing for electric cars, and green home loans. However, despite these efforts, the general perception is that consolidated efforts are not being made, as mentioned by I-3: "Currently, nothing is being done." "Large companies don't care much about the environment. Some companies try to be sustainable, but there is a lot of pollution on a global scale. Change needs to come from large companies, but also from us, from each individual."

Key Results of the research and brief Discussions;

- The lack of a clear direction of involvement is also highlighted by I-5: "Lately, there has been a lot of talk about sustainability in multinationals, in banks in Romania, but even though there are plans, measures, activities, I believe they don't have a clear strategy."
- The impact that banks can have in communities is closely related to the sustainability area, and it is important to create a good strategy, as argued by I-6, "the only reasonable advice is to be in harmony with healthy values."
- An area of interest for banks remains financing, as highlighted by I-5: "I believe that banks should finance a lot of projects, to have zero priority for everything related to financing green projects."
- This statement is further supported by I-4, who advises banks to "Invest in the education of clients and society on all these matters, not just in ecological education but actually what it means to build a good society for children, grandchildren, what long-term sustainability means, not just short-term environmental care."

Key Results of the research and brief Discussions;

- I-12 mentioned "In my opinion, for Romanians, the concept of sustainability is quite vague and primarily refers to the ecological aspect, on protecting the environment and reducing waste. From this perspective, I don't believe that the primary criteria for choosing to initiate a business relationship with a bank or a financial product/instrument is the sustainability policy of the respective institution."
- Sustainability means a better life for us and future generations. A better future can only be built through a common effort aimed at the sustainable transformation of our society. Banks should continue to invest in education and strengthen efforts to communicate transparently.
- Efforts should be made at two levels: investing in their employees to keep up with the transformations brought by sustainability and investing in companies to become more sustainable.
- In addition to these aspects, it is important to monitor sustainability programs and set ambitious goals to place sustainability at the center of the company's values. I-13 "I believe that banks have learned to be more receptive, to understand customers better."

Key Results of the research and brief Discussions;

- In response to growing environmental concerns and the demand for sustainable financial solutions, banks have increasingly embraced green banking practices. Green banking, also known as sustainable banking, refers to the integration of environmental and social considerations into a bank's financial products and services. This sector is rapidly expanding as banks recognize the potential benefits of green banking, including improved brand reputation, enhanced customer satisfaction, and reduced risk exposure.
- The green banking sector is characterized by innovation and continuous development. Banks are constantly exploring new ways to integrate sustainability into their operations and offer innovative green products that meet the evolving needs of the market. This dynamic growth is driven by a combination of factors, including regulatory initiatives, technological advancements, and increasing consumer demand for sustainable financial solutions.

<i>Development of green products and services</i>	<i>NVivoRecurrence</i>	<i>Frequency</i>	<i>Mentioned by</i>
<i>Pozitive</i>	9	High	I-10, I-11, I-3, I-9, I-12, I-13, I-14
<i>Neutral</i>	3	Medium	I-4, I-6, I-8
<i>Negative</i>	2	Low	I-5, I-7

Main Conclusions

- First, the ESG perspective adopted and correlations obtained through interviews helped us understand the Romanian banking system. The information obtained prepared a picture of the changes brought by sustainability in terms of managerial strategies.
- As the green banking sector continues to mature, it is expected to play an increasingly significant role in the transition to a more sustainable economy. By providing financial support for environmentally friendly projects and initiatives, banks can contribute to addressing climate change, promoting sustainable development, and creating a greener future.
- The transition towards sustainable banking requires a concerted effort not only from financial institutions but also from consumers. Educating consumers about the importance of sustainability and empowering them to make informed financial choices is crucial to driving systemic change.
- Banks can play a leading role by providing clear and accessible information about their sustainability initiatives, offering green financial products, and promoting sustainability education among their customers.

Main Conclusions

- Despite the challenges, the transition towards sustainable banking presents a wealth of opportunities for financial institutions. By aligning their business strategies with sustainability principles, banks can enhance their long-term financial resilience, attract new customers, and strengthen their brand reputation.
- By working collaboratively, banks and consumers can foster a financial system that prioritizes sustainability. Banks can leverage their financial expertise and influence to support sustainable SMES, while consumers can make informed choices that align with their environmental and social values. This collective action is essential for creating a more sustainable and equitable future for all.
- The time is now for the banking sector to work together and accelerate its adoption of climate and sustainable finance practices.(Todoroki & Fontan, 2024).
- Banks have also conducted internal energy efficiency campaigns and provided concrete tips for employees to use energy efficiently at work and home. To reduce paper consumption, they have implemented internal awareness campaigns and business actions to use paper efficiently, such as the possibility of obtaining products and services online: loans, investment products, etc.

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