PERFORMANCE

The following sections will examine the sustainability performance of banks, which in the context of this report will entail the self-regulatory efforts aimed at environmental, social and governance matters. The performance of the big four Australian banks will be gauged and compared to the 20 largest global banks by market capitalisation[24] and the 20 largest banks measured in assets.[25] Overlap in these lists results in a sample of 29 banks, including ANZ, CBA and WBC. The addition of NAB results in a list of 30 banks **(appendix A).**

The assessment builds on existing research into sustainable banking, which outlines performance by looking at sustainable products, services, and risk management.[26] Supplementary to this research are studies that examine how corporate governance is used to develop and implement corporate responsibility strategies.[27] Combining and updating the indicators from these studies offers an extensive approach to evaluate self-regulatory efforts by banks, using 37 indicators in four categories: (1) voluntary disclosures; (2) responsible finance; (3) stakeholder engagement; and (4) corporate governance **(appendix B).**

The assessment outlined above examines whether a bank addresses a particular sustainability indicator in public disclosures. The report will supplement this quantitative analysis by qualitatively analysing the indicators and the scores to ascertain how accurately sustainability performance is measured. The qualitative analysis will use data obtained from a national survey conducted by The Australia Institute in 2015, as well as academic publications, reports by **civil society organisations**, and media sources.

2. VOLUNTARY DISCLOSURES

Reporting

Every bank in the sample addresses sustainability in public reporting, which suggests that banks seem to acknowledge their non-financial responsibilities towards society. All four Australian banks address sustainability in their Annual Report, while also publishing a separate Sustainability Report. The data shows that most banks publish a separate Sustainability Report, while simultaneously including sustainability information alongside financial information in Annual Reports, which indicates increased **integrated reporting.**

Integrated reporting is defined as "[…] a concise communication about how an organization's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value in the short, medium and long term." Its proponents argue: "[…] the irresistible force of transparency has met the immovable object of an outdated and even dangerous model of reporting," the example of this outdated model being the near collapse of the global financial system. Integrated reporting, "[…] provides a single version of the truth to all concerned parties, inside and out."[28]

Indicator	ANZ	CBA	NAB	WBC	Asia	Europe	N. America
Sustainability reporting	✔	✔	✔	✔	8/8	11/11	7/7
Stand-alone report	✔	✔	✔	✔	6/8	11/11	6/7
Integrated report	✔	✔	✔	✔	5/8	10/11	6/7
GRI	✔	✔	✔	✔	6/8	9/11	6/7
Independently checked	✔	✔	✔	✔	5/6*	6/9*	2/6*
GRI application level	✔	✘	✔	✔	1/6*	5/9*	4/6*

* Banks using the global reporting initiative framework

It is important to note that the spread of environmental and social information between Annual and Sustainability Reports, as identified in the sample of banks, indicates that the move towards fully integrated reporting is still in a transitional stage. This suggests that non-financial performance is not yet considered central to banking operations, and the financial bottom line is still viewed as separate – and superior – to social and environmental issues. Integrated reporting does not offer a panacea that negates conflict between non-financial and financial matters, but rather considers the issues side by side to paint an all-encompassing picture.

Guidance

The well-known disclosure guidelines of the **Global Reporting Initiative** (GRI) have been widely adopted: all Australian banks and many banks from other regions use the GRI framework to guide their sustainability disclosures. Apart from the Australian banks, not every bank obtains **external assurance** for GRI disclosures, meaning that only a limited number of banks obtain third-party confirmation of the accuracy of their disclosures. Furthermore, not all banks reveal **application levels,** which they can verify using the GRI framework to indicate the scope of their reporting, using a list of required disclosures.

The figures concerning the application levels and external assurance raise doubts about the scope and accuracy of reporting, and confirm research showing that companies often make inconsistent GRI claims.[29] Concerns about information asymmetry in sustainability reporting are amplified by research that shows that increased GRI reporting has not significantly empowered civil society stakeholders.[30] Moreover, there are examples of big accounting firms providing external assurance to banks prior to the occurrence of major scandals, such as Barclay's[31] connection to $US 360 trillion interest rate-fixing[32], or HSBC's[33] role in money laundering for drug cartels and terrorists. [34]

Despite Australian banks seemingly outperforming their global counterparts on the voluntary reporting indicators, justified doubts exist about how far these indicators effectively gauge sustainable banking. Indeed, the seemingly excellent disclosure performance of Australian banks has not hindered misconduct: the Australian Securities and Investments Commission is conducting an industry-wide investigation into rate fixing in the Australian financial sector[35], while the financial planning divisions of CBA[36] and NAB[37] have been ridden with scandal due to dodgy financial advice, and Westpac has been linked to global money laundering.[38] Worryingly, none of these transgressions came to light in the banks' reporting.

Environmental Transparency

The majority of banks are transparent about environmental performance, in addition to establishing quantifiable performance targets. Banks from Australia, Europe and North America seem to outperform their Asian counterparts. Levels of transparency and the existence of environmental targets are commendable, yet it is important to note that transparency is often mistakenly understood to be a straightforward concept. In reality, transparency has many dimensions, namely *who* discloses to *whom,* and *what* is disclosed to meet *what ends*?[39]

Indicator	ANZ	CBA	NAB	WBC	Asia	Europe	N. America
Transparency	✔	✔	✔	✔	5/8	11/11	7/7
Targets	✔	✔	✔	✔	4/8	10/11	5/7
CDP	✔	✔	✔	✔	5/8	10/11	7/7

Research finds that corporate environmental performance is often pursued and disclosed opportunistically.[40] For example, a decrease in environmental costs positively affects financial performance, in part mediated through enhanced corporate reputation.[41] Opportunistic use of environmental information can be hazardous, as it can potentially erode instead of building corporate legitimacy: feigning or exaggerating environmental performance can backfire and harm a company's image.[42] Reputation incentives can also result in uninspired action, allowing banks to maintain risk levels while meeting stakeholder demands by copying practices of peers, or by applying non-aspirational industry standards.[43]

In the sample, environmental transparency most commonly manifests in carbon emissions disclosures, specifically through participation in the Carbon Disclosure Project (CDP). While participation is high, doubts exist whether CDP disclosures are valuable for investors, civil society, and policy makers, as they are associated with uncertainty about organisational boundaries.[44] For example, a 2013 study found that the Royal Bank of Scotland's fossil fuel deals led to a carbon footprint of up to 1,200 times the reported emissions, 1.6 times as high as the emissions of the UK in 2012.[45] For Australian banks, the scope of emissions reporting does not include the $AUD 36.7 billion invested in the fossil fuel industry since 2008.[46]

Social Transparency

An obstacle in assessing social performance is that the bank's functioning in this area can be difficult to quantify. Unlike carbon emissions, water usage, waste production and energy consumption, factors such as human rights, labour issues and community concerns are typically expressed qualitatively. Although banks might feature rich descriptions of case studies in their reports, this information fails to paint a complete picture of the bank's social performance, and does not allow for cross-company or regional comparisons. What is required is a coherent method for banks to measure and disclose their social performance.

Recent changes to the ASX listing requirements involve disclosure of information on social risks.[47] However, compliance is achieved simply by referring to sections of Annual and Sustainability Reports. A globally recognised tool such as **ISO26000** offers guidance on socially responsible enterprise and could structure reporting. It was established after "[…] negotiations between many different stakeholders across the world. Representatives from government, non-governmental organisations (NGOs), industry, consumer groups and labour organisations around the world were involved in its development, which means it represents an international consensus."[48]

Indicator	ANZ	CBA	NAB	WBC	Asia	Europe	N. America
ISO 26000	✘	✘	✘	✘	5/8	2/11	0/7

Yet in the sample none of the Australian banks, and only a limited number of the banks from other regions, expressly mention using ISO26000 guidance regarding their operations. Although WBC does refer to ISO26000, it does so in its supplier code of conduct, requiring providers of goods and services to adhere to practices in line with ISO2600 guidance. While WBC's focus on its supply chain is commendable, resulting in the bank outperforming its Australian counterparts, WBC simultaneously externalises its social responsibilities by shifting obligations towards its suppliers, and misses the opportunity to lead by example.

A recent report by Oxfam Australia showed involvement of the big four banks in improper land acquisition: WBC through its relation with a controversial logging company in Papua New Guinea, CBA and ANZ through relations with companies sourcing sugar cane in Brazil and Cambodia, and NAB through involvement in the palm oil industry.[49] While NAB and WBC have since changed their policies to reduce the risk of financing land grabs, CBA and ANZ are yet to adopt zero tolerance to land grabs in financial relations.[50] While these actions deserve some credit, they are nonetheless reactive and come into effect after the damage has been done.

While not providing a failsafe, adoption of ISO26000 guidance could have enabled the banks to identify and mitigate the risk of involvement in improper land acquisition, introducing a precautionary strategy in social risk management. Yet, adoption of ISO26000 guidance alone is unlikely to be effective. Successful management of social risks depends on "[…] key areas such as management systems; integration of strategy, operations, technology, CSR (corporate social responsibility) and quality; incorporation of corporate governance; and improvements in third-party certification and internal auditing practices."[51]

Summary

Theoretically, voluntary reporting frameworks improve business transparency, and can assist in formulating and achieving social and environmental objectives. However, the preceding analysis demonstrates that voluntary reporting does not offer a silver bullet and has a number of weaknesses. For example, non-financial reporting is not yet fully integrated into financial reporting. This suggests that social and environmental matters are considered a sideshow instead of a core issue, while the economic bottom line of banks continues to reign supreme.

Furthermore, there is a lot of discretion on the part of banks when choosing what reporting guidelines to follow and what information to disclose, which depends on where, when and what non-financial data is considered to be material to business operations. This situation results in discriminatory and opportunistic disclosures, allowing banks to enhance their corporate reputation without addressing all underlying concerns. Consequently, it is unlikely that the current voluntary disclosure regime of banks can help to align incentives, and reduce social and environmental information asymmetry.