

Co-operative Bank - Case Study

Background

- The Co-operative Bank is a fully owned subsidiary of CWS (Co-operative Wholesale Society). It began in 1872.
- The bank's business is almost wholly within the UK, serving retail societies, trade unions, local authorities, small businesses and the general public.
- The bank has more than 3 million customer accounts, 115 branches/outlets, and employs about 4000 people.
- It is an innovative bank, for example, it has led the way with free banking, interest-bearing current accounts and by refusing to provide credit references without the customer's permission.
- In 1995 the bank launched its National Centre for Business and Ecology, a low cost, high quality environmental advisory service to small and medium sized UK business. In 2000 it was re-engineered to include ethical and social services.
- In 1996 the bank commenced mobile telephone banking and interactive home banking services with Sky TV.
- In 1997 the bank initiated the first biodegradable Visa card.
- In May 2002 it announced its updated ethical policy on the 10th anniversary of its first ethical policy.
- In 2003 pre-tax profits were ££130.1million, up 6.2% on 2002.
- In 2002 Co-operative Financial Services (CFS) was formed, bringing Co-operative Bank and Co-operative Insurance Services (CIS) under common leadership. As both CIS and the bank previously used the AA1000 Sustainable Accountability management framework and assurance standard, reporting measures were harmonised and the first sustainability report for CFS was published in 2003.

Sustainable development policy

The revised ethical policy represents the outcome of Co-operative Bank's consultation process with customers during 2001. It represents their views on how their money should and should not be invested. The policy informs the bank's choice of partners and suppliers. The following is an abridged version edited by PP4SD.

Human Rights

Through our investments, we seek to support the principles of the Universal Declaration of Human Rights.

The Arms Trade

We will not invest in any business involved in:

- the manufacture or transfer of armaments to oppressive regimes
- the manufacture of torture equipment or other equipment that is used in the violation of human rights.

Corporate responsibility

We advocate support for the Fundamental International Labour Organisation Conventions. In line with these, we will seek to support businesses which take a responsible position with regard to:

- fair trade
- labour rights in their own operations and through their supply chains in developing countries

Genetic Modification

We will not invest in businesses involved in the development of genetically modified organisms (GMOs), where, in particular, the following issues are evident:

- uncontrolled release of GMOs into the environment
- any negative impacts on developing countries; in particular, the imposition of 'Terminator' technologies
- patenting; in particular, of indigenous knowledge
- cloning; in particular, of animals for non-medical purposes

Social Enterprise

We will seek to support charities and the broad range of organisations involved in the Social Enterprise sector.

Ecological Impact

In line with the principles of our Ecological Mission Statement, we will not invest in any business whose core activity contributes to:

- global climate change, through the extraction or production of fossil fuels
- the manufacture of chemicals which are persistent in the environment and linked to long term health concerns
- the unsustainable harvest of natural resources, including timber and fish.
- Furthermore, we will seek to support businesses involved in:
 - recycling and sustainable waste management
 - renewable energy and energy efficiency
 - sustainable natural products and services, including timber and organic produce
 - the pursuit of ecological sustainability

Animal Welfare

We will not invest in any business involved in:

- animal testing of cosmetic or household products or ingredients
- intensive farming methods, for example, caged egg production
- blood sports, which involve the use of animals or birds to catch, fight or kill each other
- the fur trade

Furthermore, we will seek to support businesses involved in:

- the development of alternatives to animal experimentation
- farming methods which promote animal welfare, for example, free range farming

Customer Consultation

We will regularly reappraise customers' views on these and other issues and develop our Ethical Policy accordingly.

Drivers for the policy

- Enlightened self-interest.
- Social responsibility has now found its way on to the boardroom agendas of many businesses across the country.
- Increased public concern as to how products and services are produced, particularly consumer goods and foods, an area in which Co-operative Wholesale Society (CWS) has led the way with honest labelling policies.
- The publication of revised corporate governance guidelines for UK company directors which establishes new responsibilities for risk management.
- The launch, by the Institute of Social and Ethical Accountability of a global ethical reporting standard, AA1000 (The Co-operative Bank became the first company in the world to adopt this standard.)
- The launch of the UK Government's SIGMA Project that aims to develop and test a new British Standard in social and environmental management. (The Co-operative Bank is one of a small group of companies taking the project forward, and is the sole participant from the financial services sector).

Sustainable development in practice

The Co-operative Bank is committed to a partnership approach and seeks to deliver value to all partners in a socially responsible and ecologically sustainable manner. Conflicts of interests arise - situations where giving to one partner will mean taking away from another. Therefore, alongside profitability, the pursuit of 'balance' is key within the partnership approach.

The bank defines its key partners as: shareholders, customers, staff and their families, suppliers, local communities, national & international society, past & future generations of co-operators.

A few examples of how the policy is implemented are:

- The bank's social and ecological ambitions involve all staff. Employees are to be granted up to 3 days paid leave to contribute to their local communities.
- An Ethical Debate Forum has been established on the Internet. Issues are debated on line for a fixed period. These have included: Currency Speculation, Human Rights, The Arms Trade, Animal Welfare, Ecological Impact, Trade and Social Involvement, Genetic Modification, Diamonds.
- 'Customers Who Care' campaigns support campaigns about which customers care. For every £100 spent on a customer's Co-operative Bank Visa credit and debit card, the bank donates 1.25p to the latest 'Customers Who Care' campaign.
- Working closely with The Big Issue in the North to identify and agree other forms of identification and therefore help a small number of vendors to overcome one of the many barriers they face in entering 'mainstream society'.
- The majority of the bank's car fleet has been switched from petrol to diesel. Carbon dioxide emissions have decreased by 6% per customer account.
- Community Directplus is a telephone and internet banking service for community organisations, charities, social enterprises and co-operatives. This service was enhanced and re-launched in 2004 and also includes a small fund of £10,000 to which customers can apply for a donation
- In 2003 Smile developed a relationship with Christian Aid. Smile products are promoted to Christian Aid supporters and for every account opened £50 is donated to the charity.
- An Affinity credit card has also been launched in conjunction with Christian Aid where a donation is made when an account is opened. This is just one of a number of Affinity credit cards which make donations to charity based on the amount spent on the card.
- As at February 2004 12% of the value of investments were deposited in ethical funds.
- In 2004 a FTSE4Good UK unit trust was launched. This product tracks the FTSE4Good index and aims to provide capital growth in the medium to long term. To be included in the FTSE4Good index companies have to meet exacting standards on environmental sustainability, human rights and stakeholder relations. In addition, the index excludes companies involved in the weapons, tobacco and nuclear industries.
- A corporate ethical savings product was investigated, but only 31 per cent of respondents polled expressed an interest in products of this type. The bank has decided to put this on hold and has included a variation in the Directplus scheme.

Business costs and benefits

The bank's strong commitment to sustainable development has realised many benefits and helps:

1. Position the bank as a champion for sustainability within the financial sector. In July 2002 it won the top Judges Award for Global Corporate Social Responsibility at the New York-based Corporate Conscience Awards - the first time it had been won by a UK business. Also in 2002 the bank won the Queen's Award for Enterprise in the sustainable development category.
2. Create a 'blue print' for the future.
3. Increase profitability by encouraging customers who are already environmentally aware and attracting those that are still debating the fundamental issues. Customers cite the bank's ethical and ecological policies more than any other single factor as their main reason for joining.
4. Increase customer confidence by their transparency through environmental reporting
5. Deliver value to their partnership. The bank's ethical and ecological positioning has made a direct contribution to the bank's profitability of around 20%.
6. Reduce overheads by achieving environmental targets thus increasing partners' profitability eg plummeting paper usage.

Since 1998, the bank's waste has been reduced by 36% per customer account. Since 1997 carbon dioxide emissions per customer account have been reduced by 83%. Ninety-eight percent of all the bank's electricity comes from renewable sources. However, there is still much progress to be made. For example, in 2001-2 business mileage increased by 300,000 miles.

Achievements

In 2003 Co-operative Bank and Co-operative Group were first (22%) and second (12%) respectively in an independent poll of MPs asked to name which companies are best at demonstrating the principals of corporate social responsibility. This rose from 21% and 5% respectively in 2002.

The Bank was once again placed first in Business in the Environment (BitE)'s Eighth Index of Corporate Environmental Engagement in the banking and financial services sectors, and maintained its position in the 'Premier League' of companies scoring more than 95 per cent.

During 2003 the bank's Ethical Policy Unit reviewed 225 potentially problematic financial opportunities (a 57% increase on 2002). Of these, 20% were found to be in conflict with the Ethical Policy and the business opportunity was declined. The estimated annualised gross income foregone in 2003 for ethical reasons is £6,887,000.

The bank responded to a number of government consultations on issues such as European chemicals legislation (more commonly known as REACH), financial support for SMEs and waste management. This is in line with CFS' policy of seeking to influence the social and environmental dimensions of legislative proposals.

Of the 77 targets set for the bank last year it has fully achieved 40, made acceptable progress against 22 and failed to achieve 15. Targets achieved included drawing customers' attention to the ethical issues arising from the trade of 'conflict' diamonds, the launch of an environmental 'Customers Who Care' campaign, the reduction of CO2 emissions from bank activities by 5% per customer account and the switching of all cheque and paying in books to paper containing 33% recycled material.

The Future

As CFS is a new entity, 2004 will focus on the integration of the two businesses that formed the group, Co-operative Bank and CIS. Chief executive Mervyn Pedelty's vision is that in 2004 "*...we will endeavour to harness the strengths, traditions and values of both CIS and The Co-operative Bank and pursue our vision to offer customers a broader range of products and an even more convenient service.*"

Project Mandate will reconcile the different approaches of the bank and CIS to Socially Responsible Investment (SRI). The project will focus on establishing a clear mandate for CIS' responsible shareholding policies, in the same way that bank customers currently guide its Ethical Policy. As part of this process, following extensive customer consultation during 2004, it is planned that CIS' new Socially Responsible Investment Policy will be launched in early 2005.

This new approach should allow the group to exert pressure from two sides of a business, by the bank refusing to finance a company that, for example, is involved with the supply of arms to oppressive regimes, and by CIS using its influence as a shareholder to question whether such activity is conducive to robust long-term financial performance.

In 2004 CFS intends to further extend the provision of information on its sustainability performance in a variety of accessible formats. In response to increasing demand for information in different languages, particularly European languages, summaries of the bank's Partnership Report and CIS' Social Accountability Report are now available in five further languages.

Further information

For further details refer to the website at:
<http://www.co-operativebank.co.uk>