CSR and banks: the role that banks could and should play in addressing financial exclusion

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Introduction

In this paper I will discuss the problem of financial exclusion in Australia and consider the role that banking corporations could and should play in assisting to address financial exclusion, on the basis of their corporate social responsibilities. While some Australian banks are undertaking voluntary initiatives in this regard, those initiatives are unlikely to be enough to have any real impact on the problem, and some regulatory intervention will be required to achieve both longevity and scale with respect to such initiatives.

Financial exclusion

The term ‘financial exclusion’ has been in use in the United Kingdom since at least the mid-1990s, defined broadly as:

…those processes that prevent poor and disadvantaged social groups from gaining access to the financial system. (Leyshon & Thrift 1995, p.312)

Financial exclusion subsequently came to be viewed in the U.K. as a lack of access to the mainstream financial system, which includes banks, building societies and credit unions. According to research undertaken in the U.K. in 1999, 7% of British households had no access to mainstream financial products at all, and 29% of British households were found to have lacked access to mainstream credit, although it was unclear how many of those households sought or desired access to credit. Those who lacked access to credit fell into two main groups: those with poor credit histories and those living on low incomes. It was found that those living on low incomes were likely to turn to alternative or ‘fringe’ credit providers to meet their credit needs. (Kempson et al. 2000)

The problem has been less extensive in Australia. Research undertaken by Chant Link & Associates found that only 0.08% of the Australian adult population owned no financial products, although 6% owned only a transaction product and therefore no credit products. They provide the following working definition of financial exclusion in Australia:

The lack of access by certain consumers to appropriate low cost, fair and safe financial products and services from mainstream providers. (2004, p.58)

This definition is interesting for its emphasis on the cost and safety of available products, which largely distinguishes between mainstream credit products and some alternative credit products such as payday loans. Chant Link & Associates confirm the implications of financial exclusion in relation to low-income Australians:

Financial exclusion becomes of more concern in the community when it applies to lower income consumers and/or those in financial hardship. (2004, p.5)
This is, in part, because lower income consumers are left with little alternative but to pay a high cost for credit. Consistent with the findings in the U.K. referred to above, Australians living on low incomes, who have been unable to accumulate savings and who are unable to access affordable credit from mainstream credit providers to meet emergency bills or to purchase essential household goods, will often have no option but to turn to alternative, or ‘fringe’ credit providers to meet their credit needs – see for example the discussion in Scutella & Sheehan 2006.

This paper is concerned with the role of Australian banks in addressing one particular aspect of financial exclusion: lack of access to safe and affordable small amount, short-term credit. This is an area in which social inequity is highlighted, where those who can least afford it pay a high price for credit. As Cartwright notes:

Where credit is concerned, exclusion from mainstream providers means in practice a choice of high-cost credit from alternative providers. In relation to credit, financial exclusion unquestionably leads to the poor paying more. (2004, p.212)

**Why should banks have a role in addressing financial exclusion?**

I argue that banks, together with government and the community sector, have a key role to play in addressing the lack of access to small amount, short-term credit for low income Australians. Imposing such a role on banking corporations can be justified on the basis that banks, as well as other corporations, have a responsibility beyond that owed to shareholders, extending to a broader stakeholder group including members of the communities in which they operate. This broader responsibility has been recognised by banks themselves, many of whom publish annual corporate social responsibility reports, noting the importance of corporate social responsibility (‘CSR’) to their businesses. Examples include:

Corporate Social Responsibility (CSR) includes the way we make business decisions, the products and services we offer, our efforts to achieve an open and honest culture, the way we manage the social, environmental and economic impacts of our business and our relationships with our employees, customers and other key stakeholders. We recognise that it is important to take a long-term view rather than simply focusing on short-term returns. (NAB 2006, p.2)

Our aim is to be a respected, responsible, corporate citizen that recognises and constructively faces up to our responsibilities to all of our stakeholders. (ANZ 2007)

To Westpac, CSR means conducting its business so that it meets its financial, social and environmental responsibilities in an aligned way. At its core, it is simply about having a set of values and behaviours that underpin its everyday activities, its transparency, its desire for fair dealings, its treatment of people,
its attitudes towards and treatment of its customers and its links into the community. (Westpac 2005, p.1)

I adopt a definition of CSR referred to by Parkinson as ‘profit-sacrificing CSR’: Behaviour that involves voluntarily sacrificing profits, either by incurring additional costs in the course of the company’s production processes, or by making transfers to non-shareholder groups out of the surplus thereby generated, in the belief that such behaviour will have consequences superior to those flowing from a policy of pure profit maximisation. (1993, p.261)

This goes beyond a concept of profit-maximisation constrained only by law and regulatory compliance, which was very much the limited approach to CSR taken by the Corporations and Markets Advisory Committee which defined CSR in the following terms:

A company will be seen to be socially responsible if it operates in an open and accountable manner, uses its resources for productive ends, complies with relevant regulatory requirements and acknowledges and takes responsibility for the consequences of its actions. (2006, p.iv)

This view of CSR contemplates companies giving consideration to social and public welfare questions in making decisions, even where some profit-sacrifice is involved. The ‘superior consequences’ referred to may include strategic benefits to a corporation, for example in terms of its public image and reputation, and in that sense may result in profit return in the long-term, notwithstanding short-term profit sacrifice. Alternatively, those superior outcomes may be more philanthropic, being socially beneficial but not necessarily of strategic benefit to the corporation - although even then, reputational benefits to the corporation might be shown.

On the face of it, banks seem to be the perfect vehicle for addressing this aspect of financial exclusion given their clear financial intermediary role in society. This will often amount to a strategic exercise of CSR, given the possible reputational benefits of such activities. It may therefore be profit-sacrificing in the short-term, but with long-term profit-making possibilities.

Parkinson refers to the concept of ‘relational responsibility’, whereby: …companies should sometimes forgo profits in order to reduce the harmful impact of their activities, to treat beneficently groups with whom they deal, or to bring their resources to bear in helping solve problems, [as having a certain] intuitive appeal. (1993, p.304)

Beyond intuitive appeal, however, this view of CSR can be justified under the banner of ‘stakeholder theory’, as well as under a general argument that power and resources should bring with them a corresponding social responsibility.
Whereas the shareholder theory of the corporation encourages a focus on profit making to benefit corporate owners, stakeholder theory requires companies to make decisions having regard to the effects of those decisions on those with a stake in the company, such as suppliers, customers, employees, management and the local community (Post 2003). A key justification given for shareholder theory is that of ‘economic efficiency’, that is, that the pursuit of profits for the benefit of shareholders is efficient in the sense of being financially beneficial to society (see discussion in Parkinson 1993, pp.305-346). This argument cannot always be maintained, given that the pursuit of profit by one corporate entity may in some circumstances be of little or no benefit to society at large, due to factors such as externalities where the costs of a company’s activities are borne by society and not the company. Conversely, where a corporate entity acts specifically to benefit social welfare, for example by providing just and adequate services to low income consumers, then financial benefits such as a decreased reliance on social welfare, fewer bankruptcies and so forth, may well follow. Another argument in favour of the shareholder theory of the corporation is that shareholders are in a unique position requiring special protections, given that they are property owners without management control over their property. It should be noted, however, that the law often constrains the exercise of property rights and the uses to which property can be put where that exercise of rights adversely affects others. There seems no justification for shareholders to enjoy an unbridled right to have profits pursued for them at cost to others in society. As Parkinson notes:

There is little to commend the view that shareholders should receive rewards that do not fully reflect the social cost of the activities from which they are derived. Similarly, investors should not be regarded as entitled to the proceeds of conduct that conflicts with generally accepted non-consequentialist social or moral values. (1993, pp.334-335)

This is not to say that the pursuit of profits and return to shareholders must be abandoned, but rather that there needs to be a greater balance between the pursuit of profits and the use of power and resources to achieve the ‘superior consequences’ referred to above, for example through contributing to a solution to a social or economic problem. This leads to my argument that such a contribution to the ‘social good’ should be made by banking corporations on the basis of their considerable power and resources. This argument is concerned with the legitimacy of the exercise of private as opposed to democratically elected, or at least constitutionally valid, state power. Within a free market, banks have the ability to determine who will be the beneficiaries of access to certain financial services and products. This has resulted in a lack of competition in the market for low income consumers, and consequently inadequate services for those consumers (Connolly & Hajaj 2001). To the extent that this results in those who can least afford it paying higher fees, such as bank default fees, and higher costs for credit due to lack of access to mainstream credit sources, we have private regulatory actors in the form of banks performing a redistributive role motivated by the pursuit of profit. The lack of legitimacy inherent in private actors playing such a role has been discussed by Majone, who asserts that:
The redistributive facets of regulatory policy should be decided by political institutions and majoritarian vote.

He goes on to state that:

The delegation of important policy-making powers to independent institutions is democratically justified only in the sphere of efficiency issues, where reliance on expertise and on a problem-solving style of decision-making is more important than reliance on direct political accountability. Where redistributive concerns prevail, legitimacy can only be ensured by majoritarian means. (1996, p.284, cited in Morgan & Yeung pp. 254 and 258)

The ‘power and responsibility’ argument also relies upon an understanding that corporations are only able or allowed to exist by concession of the state, usually through legislation, and that historically the recognition of corporations depended upon a demonstrated public interest or benefit being served by the corporation’s existence. As one example of that argument, Parkinson states that:

…the possession of social decision-making power by companies is legitimate…only if this state of affairs is in the public interest. Since the public interest is the foundation of the legitimacy of companies, it follows that society is entitled to ensure that corporate power is exercised in a way that is consistent with that interest. (1993, p.23)

The privilege of being able to receive consumer deposits as Authorised Deposit-taking Institution licence holders (Australian Prudential Authority 2008) undoubtedly places banks in a favourable position in terms of fund-raising to sustain profitable lending activities. They are also in a position of significant economic power due to the resources which they hold, and unlike most other corporations, seem to have the benefit of an implicit government guarantee that, at least in the case of the larger banks, they should not be allowed to fail. This has been particularly evident as the 2008 ‘global financial crisis’ has unfolded (Australian Labor Party 2008).

Such power and privilege gives rise to an obligation to contribute to a solution to financial exclusion in Australia, acting within the bounds of relational corporate social responsibility. Such contributions might take the form of direct lending to people on low incomes, or the provision of financial and other support to other institutions and organisations undertaking that work – the U.S.’ Community Reinvestment Act (Barr 2005), the U.K.’s Community Investment tax Relief Scheme and Growth Fund, (Social Investment Task Force 2005) and the Department for Work and Pensions (2008) are models to be considered here. I argue that current voluntary initiatives currently being undertaken by Australian banks in this area (for example: the ANZ’s Progress Loan – [ANZ 2008]; the NAB’s StepUp Loan [NAB & Good Shepherd Youth and Family Service 2008]; and NAB’s contribution to No Interest Loan Schemes [NAB 2008]) will not achieve necessary longevity or scale without regulatory intervention. That intervention can be justified on CSR grounds.
Conclusion

In this paper I have briefly outlined the nature of financial exclusion in Australia. I have then argued that banking corporations should be required to exercise relational corporate social responsibility, by providing access to safe and affordable small amount short-term credit for low income consumers (either directly or by providing assistance to other entities and organisations to undertake this work). It has been beyond the scope of this paper to consider the limitations upon current voluntary initiatives being undertaken by banks in this area, or to consider the regulatory possibilities for addressing financial exclusion. I have dealt with these issues elsewhere (Wilson 2008).

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