

Benchmarking Banks ESG Business Models

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Research Question

The purpose of this work is to provide an initial overview of the ESG intensity of Italian Banks; we estimated the **level of compliance** expressed by Italian banks with respect to the requirements set for ethical banks by Article 111 bis of the Italian Banking Act.

- The proposed analysis is developed in **two stages**:
- a **qualitative analysis**, in which we assess Italian banks against the requirements of Article 111 bis, defining whether banks are compliant, compliant oriented or non-compliant.
 - a **quantitative analysis** in which we measure, in quantitative terms, how far Italian banks deviate from the benchmark with respect to each requirement. We consider Banca Etica S.p.A. – fully compliant with the Art 111 bis – our benchmark, quantifying the gap between each bank and the former. This allows us to build up an ESG classification of the observed banks.



Results of the Qualitative Analysis

The majority of banks are **non-compliant** with the requirements of the Article 111 bis. SIs banks are on average **compliant** with two Requirements while LSIs with only one Requirement.

- Significant banks seem to be more inclined to:
- allocate financial resources to **impact-oriented projects** by granting sustainable loans according to Requirement 2 and
 - to adopt a **democratic governance** with a number of members more than 200 (Requirement 4)

Requirements	Non Compliant	Compliant-Oriented	Compliant	Total
Requirement 1	19	13	2	34
Requirement 2	13	-	21	34
Requirement 3	21	12	1	34
Requirement 4	29	-	5	34
Requirement 5	3	14	17	34
Requirement 6	33	-	1	34

The Regulatory Framework of Sustainable Banking in Italy

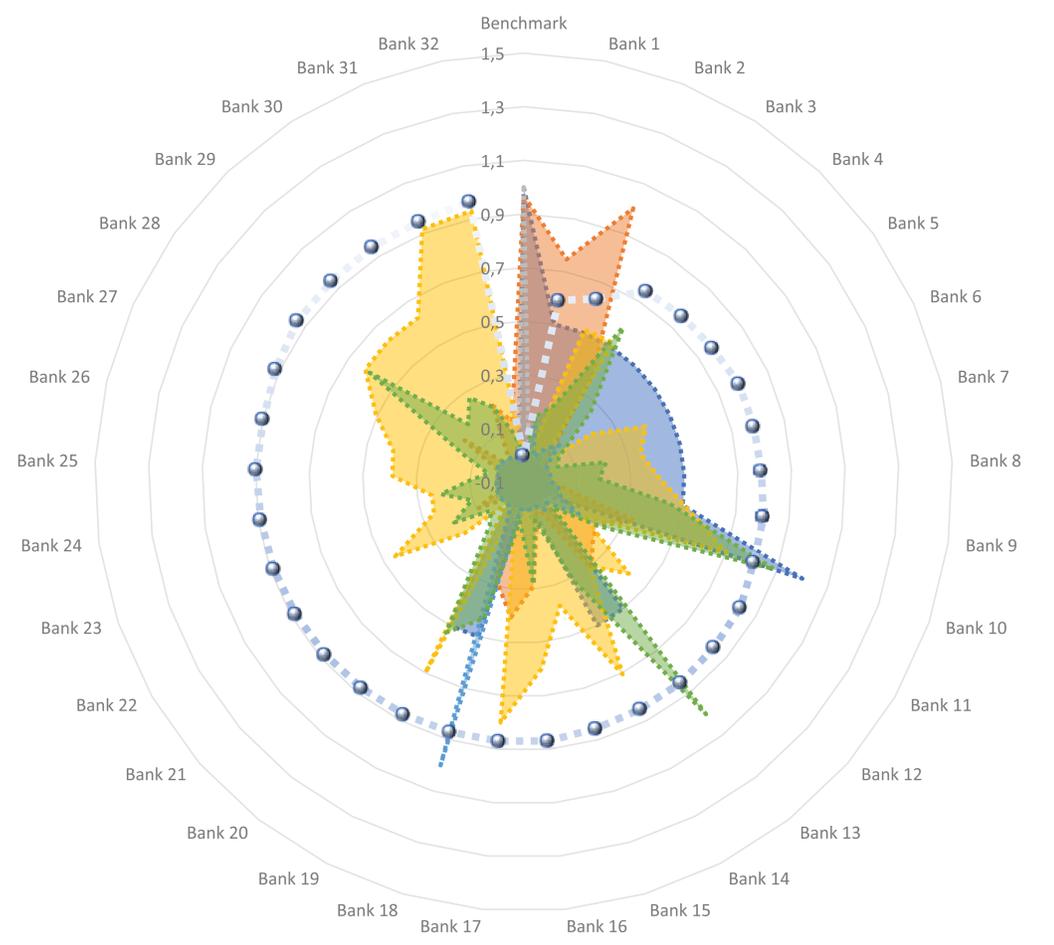
Requirements set by Article 111 bis of the Italian Banking Act

- **Requirement 1:** banks are called to assess their counterparties according to internationally recognized ethical rating standards, with particular attention to social and environmental impacts.
- **Requirement 2:** banks are called to give public evidence, at least annually and also via web, of the lending provided in Requirement 1, taking into account privacy regulations.
- **Requirement 3:** banks are requested to finance at least 20% of their credit portfolio to non-profit organizations, to entities registered in the Single National Register of the Third Sector and to social firms.
- **Requirement 4:** banks are called to not distribute dividends or profits and to reinvest them in their own business.
- **Requirement 5:** banks are requested to adopt a public company model with a strong democratic orientation (more than 200 shareholders).
- **Requirement 6:** banks are called to adopt remuneration policies aimed at limiting the difference between the highest and the average remuneration of the bank. The ratio between the two values cannot exceed the value of 5.



Results of the Quantitative Analysis

- A significant distance between Banca Etica and the other banks has been found.
- The closest bank is 0,5 distant from the benchmark.
- Banks are more distant with reference to Requirement 2, 3 and 6.
- Requirement 5 represents the requisite for which banks seem to be closer to the benchmark with a distance of 0,47.
- Regarding SIs and LSIs: the two groups exhibit average values of distances quite similar, demonstrating how the ESG compliance is not a matter of dimension or of trans-national echo.



*The presentation should not be reported as representing the views of the European Central Bank.