

# WHITE PAPER



## **ESBG considerations on a Social Taxonomy**

July 2021

## **Background**

Institutions and governments around the world have recognized the importance and necessity of taking steps to achieve a fair and just transition to a more environmentally and socially sustainable society and economy in recent years. The European Green Deal, which sets ambitious goals for sustainable growth and environmental preservation, was passed by the European Parliament in 2020. Specifically, the plan requires to:

- Reach zero net emissions of GHG by 2050
- Decouple economic growth from resource use
- Leave no person and no place behind

To achieve these objectives, a significant increase in the flow of capital into long-term investments is critical. Because the public sector can only fund a portion of these expenditures, private sector participation is required.

Developing international/ European standards is the essential first step to prevent common tactics like green or social washing and to assist private firms and investors in identifying sustainable activities. The European Union's Taxonomy was devised as a tool to bring clarity and assurance to investors, decision-makers, and citizens, first addressing primarily environmental challenges. Social and governance elements are currently included only as a component (rather than as the primary focus) in the Taxonomy. In this regard, the European Commission mandated the Platform for Sustainable Finance to work on expanding the Taxonomy to cover social objectives.

## **Savings and retail banks as social banks**

ESBG (European Savings and Retail Banking group) represents the common, European voice of retail and savings banks, which are locally focused and support the real economy, households and SMEs. ESBG brings together nearly 900 savings and retail banks in 21 European countries that believe in a common identity for European policies. ESBG members represent one of the largest European retail banking networks, comprising one-third of the retail banking market in Europe, with 190 million customers, roughly 50,000 outlets, and total assets of €5.3 trillion providing €1 trillion in corporate loans (including to SMEs), and serving 150 million Europeans seeking retail banking services.

ESBG members have a long history of socially responsible banking that places them in the centre of the discussion for the establishment of social objectives and criteria.

### **Promotion of adequate living standards for individuals and groups in situation of vulnerability**

The promotion of adequate living standards for individuals and groups in vulnerable situations is a central objective of the recommended social taxonomy, which covers basic economic infrastructure, including financial inclusion, in addition to basic human needs. ESBG member banks have a long experience in promoting banking accessibility and proximity to individual consumers and self-employed, households, micro-, small and medium-sized enterprises (MSMEs) and local authorities and especially to people who lack access to banking services due to age, poverty, physical disabilities or geographical reasons ensuring financial inclusion. Also, member banks of the ESBG have a long history of providing high-quality financial education programs to enhance the understanding of financial concerns and allow educated decisions.

### **Impact on affected stakeholder groups and respect for human rights**

When defining objectives of a social taxonomy, people are placed in the centre. Three groups of stakeholders are most commonly impacted by business: workers, consumers and communities. In their role as responsible employers, ESBG member banks advocate for workplace equality and non-discrimination, healthy working conditions, work-life balance and career advancement opportunities. Also, building and maintaining a long-term relationship of trust and confidence with their customers, through transparency, tailored advice and confidentiality, is important to ESBG member banks. Finally, ESBG member banks foster local economic growth, entrepreneurship, and jobs by primarily supporting SMEs and local households. Over and beyond their customer base, ESBG member banks link their business ambitions and success to the requirements of local communities and society in which they operate. They create, implement, and promote a diverse range of social activities in domains as medical and scientific research, arts and culture, social entrepreneurship, education, integration, and corporate philanthropy aimed at creating a more inclusive society.

## **Good corporate governance**

With regard to considering good governance principles, it is worth mentioning that ESBG members are committed to integrity and ethics among staff, management and governing bodies. Their governance structure also allows for democratic backing and supervision from local communities.

## Considerations on a future Social Taxonomy

A social taxonomy should be less complex than the environmental taxonomy. The Platform on Sustainable Finance recommends that the development of a “social taxonomy” will follow the model of the “green taxonomy” where possible. We do not consider this feasible taking into account that contrary to the environmental taxonomy that is science-based, a social taxonomy would be based on internationally agreed authoritative norms and principles. Thus, it will be more difficult to find quantifiable criteria for a social taxonomy as with the environmental taxonomy.

The social dimension of ESBG members’ activities, as presented above, goes beyond the normal operation of banks and is a factor that differentiates us from other actors in the financial sector. ESBG banks have a history of socially responsible banking that is not tied to recent, related regulatory requirements. The Platform on Sustainable Finance makes a distinction between an inherent benefit of an economic activity or entity and an additional benefit which substantially contribute to social objectives. We are convinced that our social commitment to responsible banking meets the additionality criterion.

A common EU social sustainability taxonomy (if rightly designed) will help to gather data on the degree of social sustainability of bank’s clients and it will allow to inform on the degree of banks’ portfolios alignment with social objectives. Clients information is needed for bank’s risk management and for the definition of their general business strategy. For investors, this information is useful to assess banks’ own alignment with the social taxonomy. To note, implications for banks are twofold: for own risk management and for public disclosures to investors.

As a result of above implications, and considering the rest of banking regulation, careful design of the taxonomy is needed to avoid negative effects on banking activities and strategies. More broadly, we consider key to prevent conflicts between financial stability objectives and social objectives. Both objectives has to be carefully reconciled in regulation. In particular, protection of financially vulnerable consumers has to be address avoiding to penalize banks because of its interactions with prudential rules.

Any articulation between the social taxonomy and environmental taxonomy should make sure that it doesn’t create a complex and bureaucratic framework and that it doesn’t hinder the social business of ESBG member banks. We consider that ensuring the independency of the two taxonomies may serve these objectives best. In addition to this, the relationship between a social taxonomy with other regulations under the sustainable finance framework, including the SFDR, NFRD, the prudential treatment of banks etc. should also be considered.

## The way forward

Savings and retail banks are convinced that action is needed now and that they are especially well positioned to contribute to sustainable objectives, in particular strengthening social cohesion. For savings and retail banks this will imply playing an active role in ensuring the highest commitment to financial inclusion, social cohesion and economic growth. We stand ready to leverage our expertise, knowledge and local networks to work together with policy and decision makers.



### About ESBG (European Savings and Retail Banking Group)

ESBG represents the locally focused European banking sector, helping savings and retail banks in 21 European countries strengthen their unique approach that focuses on providing service to local communities and boosting SMEs. An advocate for a proportionate approach to banking rules, ESBG unites at EU level some 900 banks, which together employ more than 650,000 people driven to innovate at roughly 50,000 outlets. ESBG members have total assets of €5.3 trillion, provide €1 trillion in corporate loans (including to SMEs), and serve 150 million Europeans seeking retail banking services. ESBG members are committed to further unleash the promise of sustainable, responsible 21st century banking. Our transparency ID is 8765978796-80.



European Savings and Retail Banking Group - aisbl  
Rue Marie-Thérèse, 11 • B-1000 Brussels • Tel: +32 2 211 11 11 • Fax: +32 2 211 11 99  
Info@wsbi-esbg.org • www.wsbi-esbg.org

Published by ESBG, July 2021