“Glossy Green” Banks: The Disconnect Between Environmental Disclosures and Lending Activities

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Discussion by: L. Zaccaria (EIEF)

The Main Message

"(..) **banks on average make unsubstantiated claims about their climate agenda**, i.e., environmental statements that do not reflect their lending strategies across brown and green sectors."

Brief Overview

Data and methodology:

- Measure ***Environmental Disclosures***: the ratio of environmental-information-related keywords to the total number of words in bank reports ($\rightarrow$ **HighEnvRep**$_{b,t}$)
- **Brown**$_{i,c,t}$: industries that rank in the upper quintile for GHG emissions relative to the industry's value added (country-year level)
- Use loan-level data on European borrowers (Anacredit)

Brief Overview

Results:

- At the loan level: $\mathbf{Brown_{i,c,t}}$ + $\mathbf{HighEnvRep_{b,t}}$ = **Larger Loans**
- At the bank level: $\mathbf{Brown_{i,c,t}}$ + $\mathbf{HighEnvRep_{b,t}}$ = **Larger Credit Share**
  - *These effects are due to pre-existing relationships with "zombie" brown borrowers*

Main Comments

1. Interpretation of the results: **Is this Greenwashing?**
   1.1 Measurement Issues
   1.2 Estimation Results
2. Mechanism: **What Explains ESG Talk?**
3. Broader Considerations

Measurement #1: On and Off Balance Sheet Commitments

In banks' reports, Sustainable Finance goals are usually set on 3 levels

- **Direct Loans** (**On** Balance Sheet)
- **AUM** (via their Asset Management branch, **Off** Balance Sheet)
- **Origination** (via green bonds, **Off** Balance Sheet)

Measurement #1: On and Off Balance Sheet Commitments

Sustainable finance

Group mobilisation and external recognition

Mobilised alongside clients to support them in the transition towards a sustainable economy and to align portfolios with the commitment to carbon neutrality

Sustainable loans to Corporates, Institutionals & Individuals *dedicated to sustainable projects*[1]	€87bn at end-2022	2025 target: €150bn
Sustainable bonds *issued for BNP Paribas clients between 2022 & 2025*[2]	€32bn at end-2022	2025 target: €200bn
Assets under management in SFDR Article 8 and 9 funds *in 2025*[3]	€223bn at end-2022	2025 target: €300bn
Amount of support *enabling clients* to **transition to a low-carbon economy**[4]	€44bn at end-2022	2025 target: €200bn

N°1 worldwide[5] in green bonds with $19.5bn

N°3 worldwide[5] in sustainability-linked loans with $17.9bn

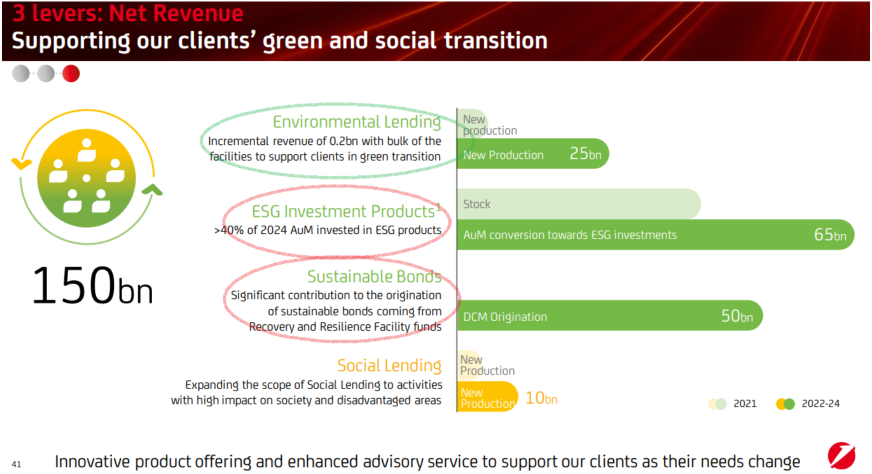
World's top bank in sustainable finance in 2022

ShareAction **2022 European leader** in combatting climate change and protecting biodiversity

Prize for the year's best Net-Zero progress in EMEA (Europe, Middle East, Africa)

1. Amount of sustainable loans related to environmental or social issues granted by BNP Paribas to its clients; 2. 2022-2025 cumulative amount of all types of sustainable bonds (total amount divided by the number of bookrunners); 3. BNP Paribas Asset Management open-ended funds distributed in Europe and classified Article 8 or 9 under SFDR; 4. Green loans, green bonds, and all financing supporting low-carbon technologies, such as renewable energies, green hydrogen, etc.; 5. Source: Bloomberg, bookrunner in volume as at 31.12.22

Measurement #1: On and Off Balance Sheet Commitments



Measurement #1: On and Off Balance Sheet Commitments

Our KPIs by 2025

			2022	2025 targets
	TNAVps + DPS growth 2023-2025	RoTE (%)	13.4	15-17
		Payout (Cash + SBB)[1] (%)	40	50
		EPS Growth (%)	23	Double-digit
1	**Customer centric**	Total customers (mn)	160	c.200
		Active customers (mn)[2]	99	c.125
2	**Simplification & automation**	Efficiency ratio (%)	45.8	c.42
3	**Network contribution**	Global & network businesses contribution to total revenue (%)	>30	>40
		Global & network businesses contribution to total fees (%)	c.40	>50
4	**Customer activity**	Transactions volume per active customer (#/month)[3]	27	c.+8%
5	**Capital**	CET1 FL (%)	12.04	>12
		RWA with RoRWA>CoE (%)	80	c.85
	ESG	Green finance raised & facilitated (€bn)[4]	94.5	120
		Socially responsible Investments (AuM) (€bn)	53	100
		People financially empowered (mn)[5]	>10	15
		Women in leadership positions (%)	c.29	35
		Equal pay gap (%)	c.1	c.0

Santander

1) Target payout will be c.50% of group reported profit (excluding non-cash, non-capital ratios impact items), distributed in approximately 50% in cash dividend and 50% in share buybacks. Execution of the shareholder remuneration policy is subject to future corporate and regulatory decisions and approvals.
2) Those customers who meet transactionality threshold in the past 90 days.
3) Total transactions include merchant payments, cards and electronic A2A payments. Target c.+8% CAGR 2022-25.
4) Since 2019.
5) Since 2019. Additional 5mn people by 2025 with access and finance initiatives. Does not include financial education.

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  - Provide or facilitate market lending for large green firms
- **This may be consistent with your results.. but is it greenwashing?**

Measurement #2: Robustness

"Green Talk" is measured by keywords: Just noise?
Buzzwords may be used to confuse investors, or to elaborate on vague future goals (instead of actual quantifiable results or objectives)

- **Validation**: the level of *Environmental Disclosures* positively correlates with various ESG scores
  - (This begs the question: should we question these "professional" ESG ratings?)

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- **Robustness**:
  - In most specifications you use variation in $\mathbf{HighEnvRep_{b,t}}$ **over time WITHIN BANK** (i.e., with bank fixed-effects μ_b)
  - Does bank-level variation in your proxy also correlate with changes in ESG scores?

Loan Level Results

$$Loan\,amount_{f,b,i,c,t} = \alpha + \beta_1 \left(Brown_{i,c,t} \times HighEnvRep_{b,t}\right) + \beta_2 HighEnvRep_{b,t} + \gamma X_{b,t} + \delta_{i,c,t} + \mu_b + \varepsilon_{f,b,i,c,t}$$

	Loan Amount				
	(1)	(2)	(3)	(4)	(5)
High env. reporter	-0.0740	-0.0968***		-0.0177	
	(0.0582)	(0.0300)		(0.0173)	
Brown	-0.186***				
	(0.0323)				
High env. reporter x Brown	0.129**	0.0878**	0.0978***	0.0715**	0.0538*
	(0.0510)	(0.0372)	(0.0282)	(0.0321)	(0.0284)
Bank controls	Yes	Yes	-	Yes	-
Bank FE	Yes	Yes	-	Yes	-
Firm FE	Yes	No	No	-	-
Time FE	Yes	-	-	-	-
Industry-Country-Time FE	No	Yes	Yes	-	-
Firm-Time FE	No	No	No	Yes	Yes
Bank-Time FE	No	No	Yes	No	Yes
N	2,231,059	3,058,259	3,058,180	636,717	636,085
R^2	0.712	0.206	0.213	0.799	0.803

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Loan Level Results

Can smaller non-brown new loans be compatible with genuine "green intentions"?

- Younger firms (in any sector) may be more "environmentally conscious"
  - These firms are smaller $\rightarrow$ smaller average loan size
  - ..and perhaps riskier $\rightarrow$ staging or risk sharing among lenders

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$\rightarrow$ *Add firm level controls?*

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$$Credit\ Share_{b,i,c,t} = \alpha + \beta_1 \left(Brown_{i,c,t} \times HighEnvRep_{b,t} \right) + \beta_2 HighEnvRep_{b,t} + \gamma X_{b,t} + \delta_{i,t} + \nu_{c,t} + \mu_b + \varepsilon_{f,b,i,c,t}$$

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How about $\mathbf{Green_{i,c,t}} \times \mathbf{HighEnvRep_{b,t}}$?
Your results may be compatible with genuine "green intentions" if Brown $\uparrow$ Green $\uparrow$ ("White" $\downarrow\downarrow$)

- $HighEnvRep_{b,t} \uparrow \Rightarrow$ constraint on Green Share
- But if Green is riskier/less profitable than Brown $\Rightarrow$ Brown $\uparrow$ "White" $\downarrow\downarrow$

Bank Level Results

What happens when we include/exclude 2020?

Chart 1. Bank loans to firms

(flows in EUR bn)

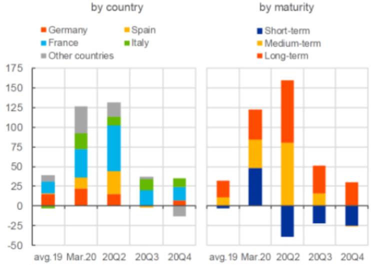
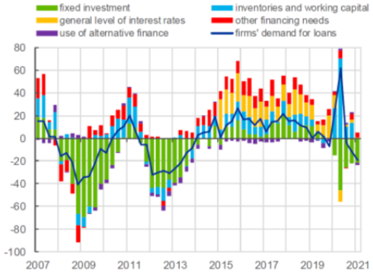


Chart 2. Changes in demand for loans to firms and contributing factors

(net percentages of banks)



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- Stakeholders?
  - *Customers/Employees*
  - **Investors**

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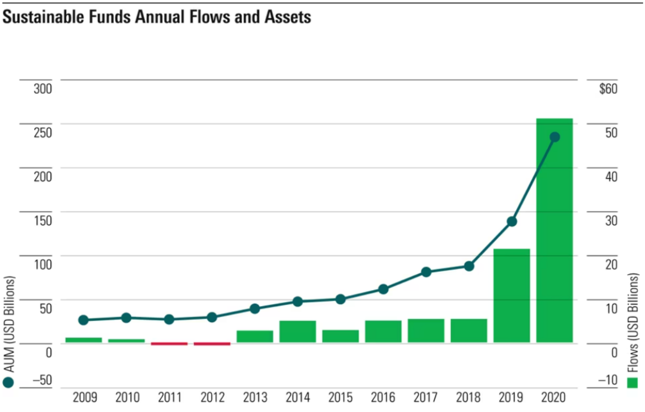

Source: Morningstar. Data as of 12/31/2020.
Includes Sustainable Funds as defined in Sustainable Funds U.S. Landscape Report, Feb. 2020.
Includes funds that have been liquidated; does not include funds of funds.

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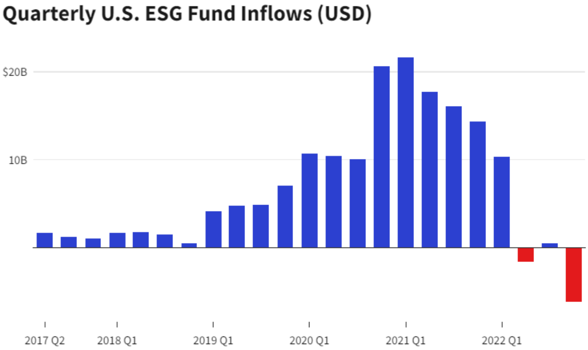
To close the circle:

- Banks with poor performance try to support stock prices with greenwashing
  - Greenwashing $\Leftrightarrow$ Zombie Lending

Mechanism: What Explains ESG Rethoric?

Does rethoric change with ESG flows reversal?



Final Remarks

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Bank credit as the vehicle for green economic policies

- **Legal basis for credit rationing to legitimate firms?** Lessons from "Operation Chokepoint" (*see Sachdeva et al., 2023*)
- **Unintended consequences of green credit**:
  - Brown firms may resort to different (unregulated) lenders: shadow-brown-banking?
  - Higher cost of capital: more consolidation and market power in brown industries?

Minor Comments

- Firm fixed effects (Table 3 column 1): how much variation is there across years in industry emission rankings?
- What if you used ESG ratings instead of your measure of disclosures?
- Zombie firms: can you use credit registry data to identify them?