

## Case Study 1.2

### The Co-operative Bank

*Member-owned, customer-led, and ethically-guided*

Created in 1872, The Co-operative Bank is a financial services provider that is part of Co-operative Banking Group, which in turn is part of The Co-operative Group, Britain's largest consumer co-operative. In 2010, the Bank was the recipient of the Financial Times Sustainable Bank of the Year award. The judging panel noted the Bank's achievements in 'integrating social, environmental and corporate governance considerations into their operations'. This award was recognition for the sustainable and ethical approach to banking that the business has aspired to since it was founded. A leading factor in the attainment of this award is the customer-driven ethical policy the Bank developed in 1992. This ethical policy has evolved into the Bank's competitive advantage over Britain's other high street banks.

#### Background

A cursory glance at The Co-operative Bank reveals a set-up that is similar in terms of its business model to others in the financial services sector. The Bank offers savings, loans, mortgages, credit cards, investment and other common financial products to individuals and businesses alike. It has almost 350 branches, over six million customers, and a record of innovation in the banking sector having launched the first fully online bank in the UK, 'smile', in 1999. The Bank reported an operating result of £108.6m in the first half of 2011, 37 per cent higher than the equivalent period in 2010, with assets of £46.4bn.

The Bank's purpose is 'to be a pioneering business delivering sustainable financial services for members and customers'. The distinguishing factor between The Co-operative Bank and other major financial service providers such as Barclays and HSBC is not the pursuit of profit but the way in which that profit is generated, otherwise known as 'the co-operative difference'. And at the heart of the co-operative difference is the Bank's ethical policy, the first amongst Britain's high street banks and still unique in 2011.

#### What is the ethical policy?

In essence, the ethical policy stipulates with whom the Bank will and will not do business.<sup>1</sup> The ethical policy serves as a guarantee by the bank that it will use its customers' money in a way that aligns with its stated values. This has real ramifications for the bank; it is not simply a vague statement on corporate social responsibility (CSR). Since 1992, the Bank has withheld over £1bn in



funding to businesses that contravene the ethical policy. According to the Bank, 'it's a price worth paying to run a business that our customers can feel proud of.'

### How is the ethical policy implemented?

The Bank operates a rigorous compliance process for ensuring each new business customer conforms to the ethical policy. Firstly, the potential business customer must fill out an ethical questionnaire as part of their application, which is then assessed against the ethical policy. If there are concerns or queries, the application is passed onto the Ethical Policy Unit where it is assessed against the policy statements and the database of over 1,700 case studies kept by the Bank. The effect of a customer's business on the Bank's bottom line plays no role in the final decision on whether or not to accept their application.

### The future

David Anderson, former Chief Executive, notes: 'One third of our profits come from customers who have joined just because of the ethical policy.' The Co-operative Bank continues to deliver sustainable and profitable performance guided by its unique customer-led ethical policy. This shows that a co-operative values-based business model can be used to develop a competitive advantage over conventional businesses by leveraging the ethical commitment and values of members and customers. In Anderson's words: 'We believe that by doing this we can invest for the long-term benefit of customers and, at the same time, use our influence as an investor to improve our environment and society.'

Source: <http://www.youtube.com/watch?v=YrXWTXuShIQ>



## The ethical policy in detail

Table 1-Policy statements

<b>Human rights</b>	<p>"We will not finance any organisation that advocates discrimination and incitement to hatred."</p> <p>"We will not finance the manufacture or transfer of indiscriminate weapons, e.g. cluster bombs and depleted uranium munitions."</p>
<b>International development</b>	<p>"We will not finance organisations that fail to implement basic labour rights as set out in the Fundamental ILO Conventions, e.g. avoidance of child labour, or that actively oppose the rights of workers to freedom of association, e.g. in a trade union."</p> <p>"We will not finance organisations that take an irresponsible approach to the payment of tax in the least developed countries."</p> <p>"We will not finance organisations that impede access to basic human necessities, e.g. safe drinking water or vital medicines."</p>
<b>Ecological impact</b>	<p>"We will not finance any business whose core activity contributes to global climate change, via the extraction or production of fossil fuels (oil, coal and gas), with an extension to the distribution of those fuels that have a higher global warming impact (e.g. tar sands and certain biofuels)."</p> <p>"We will not finance any business whose core activity contributes to the development of nanotechnology in circumstances that risk damaging the environment or compromising human health."</p>
<b>Animal welfare</b>	<p>"We will not finance any organisation involved in the exploitation of great apes, e.g. in experimentation or general commercial use."</p>

<sup>1</sup> The Co-operative Bank, 'Why Do We Need Ethical Policies'. <http://www.goodwithmoney.co.uk/why-do-we-need-ethical-policies/>, accessed 4 May 2011.

