

Scottish National Investment Bank

Provision of Advice on Ethical
Statements

Executive Summary - May 2020

Background to Project

In December 2019 the Ethical Finance Hub (EFH) was commissioned by the Scottish Government (SG) to prepare a report on the “**Provision of Advice on Ethical Statements**” for SNIB (the Report). The EFH team was happy to assist SG in this task using its deep expertise in finance and sustainability. Using our unique insights and a proprietary holistic methodology we are able to develop frameworks to help financial institutions looking to navigate and engage in the sustainability and responsible finance agenda.

The Report is intended to guide the SNIB leadership team in its efforts to develop the bank’s ethical statement and its associated ethical framework. It discusses the moral and practical reasons for an ethical approach and considers ethics in the context of an institution as well as the individual, and how ethics manifest internally and externally. There are certain ethical principles that SNIB must comply with by law, but the institution’s founding documents, including the Act establishing the Bank and the extensive stakeholder consultation carried out as part of the legislative process, also clearly show that there is a widespread desire to establish a Bank that goes “above and beyond” in terms of ethics.

The Report provides a contextual analysis of current approaches and recommendations as to how SNIB might develop its ethical statement and framework. The underpinning research process involved: completing a literature review; identifying and analysing relevant frameworks, regulations and standards; conducting a horizontal benchmarking exercise of comparable institutions; and interviewing the leadership team building out the Bank.

Whilst the final Report remains confidential this executive summary has been prepared to allow the key points from each chapter to be shared publicly.

Scottish National Investment Bank

In the Programme for Government 2017 to 2018, the First Minister announced plans to establish a Scottish National Investment Bank (SNIB) which would provide patient and growth capital for businesses and catalyse private sector investment. The Bank is to align its aims and objectives with Scotland’s Economic Strategy to support ambitious companies and important infrastructure projects to help transform and grow Scotland’s economy.

The Scottish Government has committed to investing £2 billion over 10 years to capitalise the Bank that will be operational in the second half of 2020.

Taking a mission based approach, SNIB will aim to support innovative, high growth firms that have a positive impact in Scotland. The primary mission for SNIB will be to support Scotland’s transition to net zero carbon emissions through a range of debt and equity products.

<https://www.gov.scot/policies/economic-growth/scottish-national-investment-bank/>

Ethics, Culture and Conduct

The first section of the Report identifies the key drivers and trends in relation to ethical behaviour in the financial services sector and initiatives which aim to define and promote it. It identifies and defines the concepts of ethics, culture and conduct before making the business case for SNIB becoming an ‘ethical bank’.

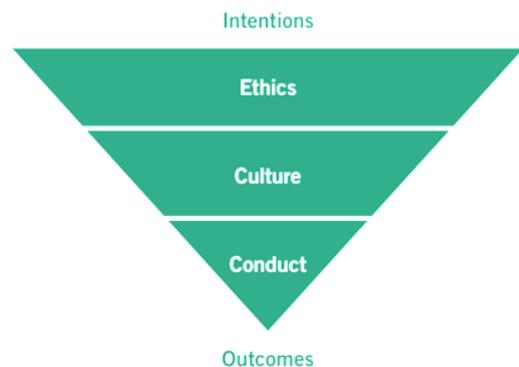
Growing Interest in Ethics

- The seismic impact of the 2008 financial crisis extended beyond the banking industry with economic, social and political shockwaves felt around the world and, whilst much-needed reforms have ensured that banks are now better capitalised, better managed and more transparent, the reputational damage has yet to be fully repaired, and public trust has still not been fully restored.
- Within the financial services sector, interest has increased markedly over recent years in the ways in which the sector can – and *should* – look beyond profit and shareholder value towards how it can support social, economic and environmental impact.

- Other emerging trends which have placed additional pressures on the industry include: seeking to move from short to long-term thinking, reporting on stakeholder interests, delivering value and sustainability, demonstrating a positive contribution to society and responding to more general industry and societal expectations around issues such as climate change, human rights and gender equality and diversity.
- Following a period of introspection, in recent years the term “ethical” has gained more prominence as financial institutions re-focus on “doing the right thing” and “getting it right.”

Defining and Promoting Ethics, Culture and Conduct

- An ethical statement should not be considered in isolation as it reflects a wider interplay between ethics, culture and conduct whereby intentions inform the organisation’s ethics, which in turn shape its culture and drive the conduct and outputs of its employees.
- The Institute of Business Ethics (IBE) defines ethics within a business context as: *“The application of ethical values, such as integrity, fairness, respect and openness, to business behaviour. Business ethics is relevant both to the conduct of individuals and to the conduct of the organisation as a whole. It applies to any and all aspects of business conduct, from boardroom strategies and how companies treat their employees and suppliers to sales techniques and accounting practices. Ethics goes beyond the legal requirements for a company and is, therefore, about discretionary decisions and behaviour guided by values.”*¹
- The Financial Conduct Authority (FCA) proposes that culture: *“drives individual behaviours which in turn affect day-to-day practices in firms and their interaction with customers and other market participants. Culture is therefore both a key driver, and potential mitigant, of conduct risk.”*²



The Business Case for an Ethical Approach

- The business case for an ethical approach has both *internal* and *external* dimensions:
 - *Internal* - promoting a management philosophy based on ethical practices and behaviour

Leadership	Employees
<ul style="list-style-type: none"> • Management team sets the tone for how the institution runs on a day-to-day basis • Lead by example and guide decision-making that benefits individuals and organisation • Forge stronger bond between individuals on the management team, creating stability within the organisation • Create long-lasting positive effects which enables the institution to attract and retain highly talented individuals 	<ul style="list-style-type: none"> • Follow in the footsteps of management • Make better decisions in less time with business ethics as a guiding principle • Increased productivity and overall morale • Complete work in a way that is based on honesty and integrity allowing the whole organisation to benefit • Embed high standard of business ethics increases employee performance and loyalty

- *external* - building and maintaining a positive reputation, improving public trust and image, minimising reputational risk and developing better relationships with customers, employees, suppliers and society.

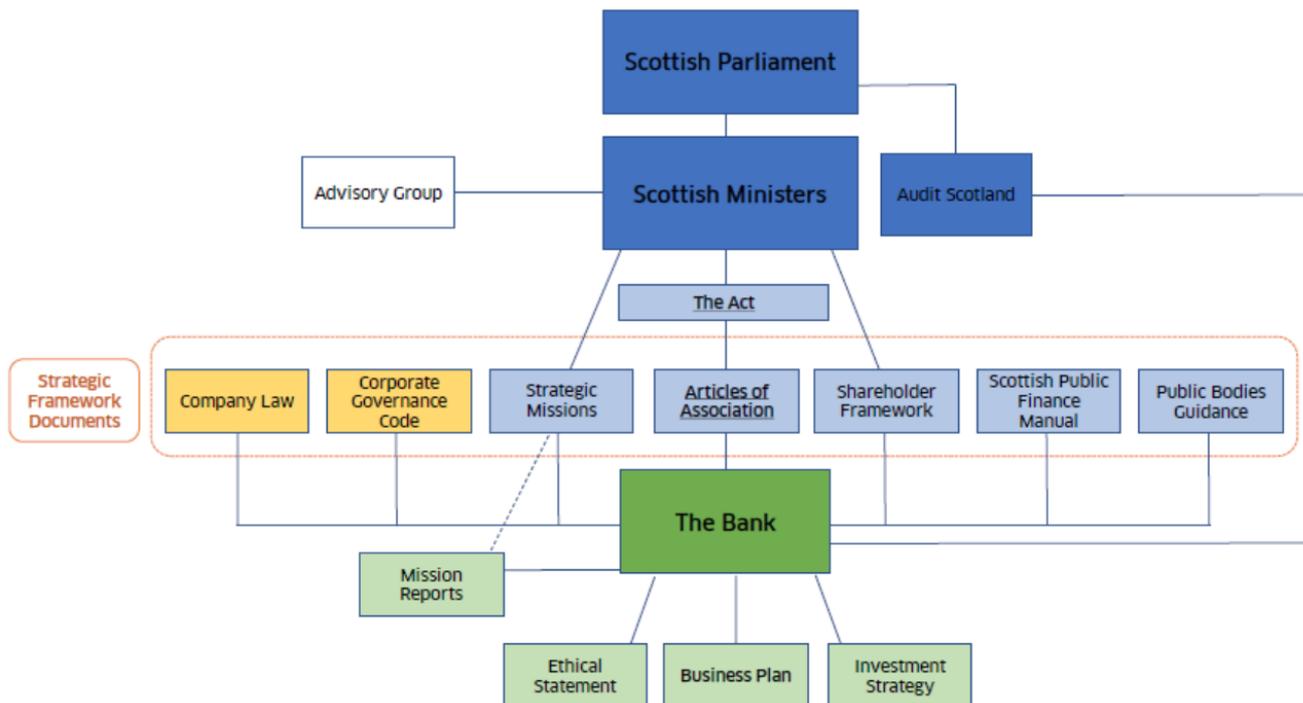
¹ What is business ethics?, Institute of Business Ethics, <https://www.ibe.org.uk/frequently-asked-questions/3#faq273>

² Culture in banking, FCA, <https://www.fca.org.uk/publication/foi/foi4350-information-provided.pdf>

Ethics and the Scottish National Investment Bank

This section of the Report analyses the key legislation and documents relevant to SNIB’s approach to ethics. To make practical recommendations it was important to understand the impact of legal requirements, stakeholder expectations and governance structure in relation to the Bank’s ethical approach.

- There is widespread support in Scotland – both publicly and politically – for SNIB to take a differentiated approach, and to not only be founded as an “ethical” bank but to become a leader in ethical standards for banks where it encourages others to adopt similar “best in class” ethical policies and practices.
- The Scottish National Investment Bank Act 2020 and the Policy Memorandum, Public Consultation and Implementation Plan³ related to it all make specific references to the ethical approach to be taken by SNIB.
- Within its proposed governance structure SNIB has direct ownership and control over its mission reports, ethical statement, business plan and investment strategy:



National and International Principles and Ethical Standards

This section of the Report identified and analysed industry standards at the international, national, corporate and individual levels. Developing an understanding of best practice approaches at all of these levels helped to inform some of the recommendations made to SNIB.

- The following principles and professional standards were analysed:
 - **At the international level** – the United Nations Principles for Responsible Banking (PRB), the United Nations Principles for Responsible Investment (PRI) and the Global Reporting Initiative
 - **At the national level** – the Financial Conduct Authority and the Prudential Regulation Authority
 - **At the corporate level** – the Banking Standards Board
 - **At the individual level** – the Chartered Banker Institute, the Chartered Financial Analyst Institute, the Institute of Chartered Accountants in England and Wales and the Institute of Chartered Accountants of Scotland.

³ <https://www.gov.scot/publications/scottish-national-investment-bank-implementation-plan/>

- International standards and national-level regulations are useful in defining expectations of ethical behaviour and providing consistency but cannot be fully effective without a responsible organisational culture and personal conduct based on the right principles.
- Being ethical is more than complying with regulators and their standards: it requires assuming greater personal responsibility for shaping positive outcomes for individuals and society and treating customers, colleagues, partners, suppliers, and the wider society with due care and respect.
- The number of financial institutions voluntarily signed up to the PRB and PRI and reporting according to the GRI indicate a willingness among many institutions to go beyond the minimum legal standards and embed ethical behaviour into organisational culture.
- The ethical values referred to most frequently by regulators and professional bodies include: responsibility, accountability, trust, respect, integrity, fairness, honesty, due care and diligence, reliability and openness.

Ethical Frameworks at Comparator Institutions

This section analysed the approaches that other comparable institutions have taken towards ethics with a particular focus on ethical policies (including exclusions and restrictions), vision / mission statements and codes of conduct.

An audit of ten financial institutions from the following groups was completed: mission-led state investment banks; UK based mission-led commercial banks; state-owned development banks; and UK based banks with “ethical” approaches, from which the following conclusions emerged:

- There is no universal approach to ethics within the financial services sector and the characteristics of ethical policies depend on the goals, methods and operating environment of each institution. Different organisations not only espouse different ethical goals, but also structure their approach to ethics differently often using similarly titled documents for subtly different purposes.
- Some ethical policies are short statements outlining what is important to the institution while others are more substantial and serve to create an entire framework according to which relevant supporting documents such as a code of conduct or exclusions policy can be structured.
- Exclusions and restrictions policies can be applied to *individual companies* (e.g. due to corrupt behaviour) and to specific *sectors/industries* (e.g. pornography, weapons or sectors that harm the environment). Potentially, this could be a contentious area for SNIB given its duty to encourage and drive inclusive economic growth in Scotland without compromising people or the environment.

Key Considerations

This section draws upon the research outlined above to provide tailored practical recommendations for the SNIB leadership team to consider when developing the Bank’s ethical statement and related framework.

Creating an Ethical Framework

- It is envisaged that the SNIB’s ethical statement will form part of an integrated ethical framework that incorporates the Bank’s purpose, vision and values. The ethical statement is a high-level statement of intent that sets out SNIB’s position regarding its ethical approach. It should emanate from the purpose, vision and values and be unequivocal, ambitious and inspiring. It should be easily accessible and understood by employees, clients, suppliers and wider stakeholders. More detailed supporting documents, such as a Code of Ethics and Investment Strategy, can augment the ethical statement as part of the wider ethical framework.
- A critical success factor is for the ethical framework to be embraced, adopted and valued throughout SNIB. Establishing multi-disciplinary team(s), comprising of representatives from different levels and

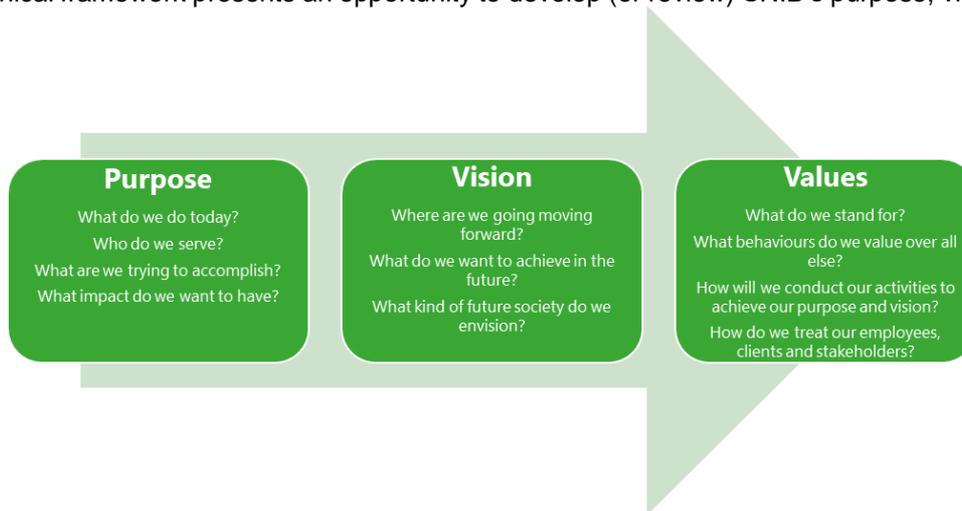
functions within SNIB, should be considered to develop the ethical framework. Engaging and involving employees early will help to ensure the framework is relevant, representative of the organisation as a whole and improve buy-in and the sense of ownership when it is launched.

- The components of the framework should be living documents that are regularly reviewed and updated to reflect new priorities, regulations, market trends, societal expectations, etc. There should be clarity on ultimate ownership, escalation processes and reporting. Given its importance, in the short term the board should assume ownership of the ethical framework and, when a certain scale has been achieved, SNIB could, in the future, consider forming a dedicated committee to take ongoing responsibility for the framework.
- Providing employees with a Code of Ethics that states clearly and concisely the organisation’s expectations, outlines acceptable behaviours, and presents viable options for asking questions and voicing concerns will increase the likelihood that they will meet those expectations and exhibit the desired behaviours. Making the contents of the Code equally applicable to everyone in the organisation—at all levels—will provide a key ingredient for it to become embedded in the organisation’s culture, with all of the attendant benefits.

Components of an Ethical Framework

Purpose, Vision and Values

Creating an ethical framework presents an opportunity to develop (or review) SNIB’s purpose, vision and values.



Ethical Statement

The ethical statement should outline: (1) what SNIB will do and how it will do it; and (2) its position on ethics and aspirations for its ethical framework. An example of a possible ethical statement for SNIB is provided below:

“The Scottish National Investment Bank is a mission-led bank seeking to address societal challenges whilst generating a financial return. Through our innovative model we support organisations that deliver positive social, economic and environmental outcomes. Behaving ethically is in our DNA and our ethical framework outlines our integrated approach to ethics, culture and conduct. As an ethical, inclusive and trusted institution we strive to lead by example by setting the new benchmark for the industry.”

Code of Ethics

With a commitment to ethics, integrity, and quality a Code of Ethics could be developed as part of the ethical framework. The code would highlight the importance of ethics and compliance to each SNIB employee. It would provide an ethical decision framework to assist employees in making choices and provide details of available resources for obtaining guidance and for good faith reporting of suspected misconduct. The code could also include enforcement and implementation mechanisms. To bring the code to life it is advisable to include, as far as possible, relevant examples of what constitute acceptable and unacceptable behaviour.

Investment Strategy

It is important for SNIB to provide guidance on how investment decisions should be made and implemented and the permissible scope of delegated authority. It is therefore recommended that SNIB’s ethical framework includes a robust Investment Policy Statement (IPS) which will help to ensure adherence to an investment decision-making process that is consistent and analytically rigorous. The IPS would provide details of SNIB’s exclusions and restrictions.

Additional Considerations

During the project the EFH research team identified a number of other opportunities that could help to reinforce SNIB’s position as a leading ethical institution. They include:

- Voluntarily signing-up to and/or adhering to key international and national frameworks such as UN’s Principles for Responsible Banking, Principles for Responsible Investment, Global Reporting Initiative and Banking Standards Board
- Leading by example to create an industry group to collectively look at ethics across the industry and encourage go above and beyond legal requirements to report on performance
- Helping clients to be better organisations providing education and support around sustainability and / or integrating ethical dimensions into conditionality of lending
- Ensuring the SNIB team is inclusive, engaged and appropriately rewarded.

Implementation

This section provides a six-step implementation plan inspired by the Institute of Business Ethics Model. For each step detailed practical advice and guidance is offered to help the SNIB leadership team to design and embed a robust ethical framework.



The plan includes proposals to engage with employees to develop the framework and to establish an Ethical Framework Committee to assume responsibility for establishing, updating, reinforcing and monitoring the ethical framework and identifying ethical risks and opportunities.

As well as its content and format, formulating the appropriate process for developing and implementing the ethical statement, and wider ethical framework, is imperative to ensure its influence is optimised on behaviour at all levels and in all functions within SNIB. A critical success factor for SNIB will be to engage with employees from the outset to ensure that they play an important role in shaping the environment within which they will be working.

Every aspect of corporate culture needs to be harnessed and every corporate policy needs to be in line with ethical commitments. The ethical framework should therefore be considered in the development of policies and procedures across all of SNIB’s core functions

Ethical Finance Hub

The EFH is a not-for-profit advocacy and advisory body that researches and promotes ethical finance in Scotland.

Against a backdrop of the 2008 financial crisis, sustainability, climate change and social justice themes led to a collective desire of practitioners in Scotland to create a more responsible financial sector that operates on a transparent and ethical basis. In this context the concept of the EFH was conceived.

With funding from Scottish Government, the industry-led initiative was launched in 2016 with the aim of connecting individuals and organisations interested or active in the ethical finance market to raise awareness, educate and facilitate practical activities that will help create a fairer, more inclusive and socially responsible financial system.

Since then the EFH has successfully delivered executive education courses, launched an internship placement scheme, facilitated consultations at the request of Her Majesty's Government and Scottish Government and delivered advisory projects on business-led inclusive growth and creating ethical frameworks for financial institutions.

As a stakeholder endorser of the UN Principles for Responsible Banking the EFH has specialist expertise in the UN Sustainable Development Goals.

www.ethicalfinancehub.org

If you would like to discuss how the EFH might be able to support your organisation in developing an ethical framework please call Chris Tait on +44(0)7931 103573 or email chris@ethicalfinancehub.org.

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