

SUSTAINABLE VS. NOT SUSTAINABLE COOPERATIVE BANKS BUSINESS MODEL: THE CASE OF GBCI AND THE AUTHORITY VIEW

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Abstract

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Sustainable finance has become a common lexicon of both supervisors and financial institutions in the last years also due to the COVID-19 crisis. Undoubtedly, the application of ESG (environmental, social, and governance) factors is currently designing a new strategic perspective, a new approach to business usually named “sustainable”. The paper’s research problem is related to the reengineering of the bank’s business model on sustainability. Integrate ESG factors within the decision-making process will not be enough for the European financial sector; it will be strategic that European authorities and regulators also ensure incentives in this direction. In this perspective, the paper has the purpose to answer the following questions: “How sustainable the business model of cooperative credit banks is and how they are ESG oriented?”, “What are the possible ways, in the prudential framework, to foster a higher attention to the ESG paradigm, in the bank’s business model?”. The research methodology used analyses of a) the main features of cooperative bank systems and the sustainability of their business model and the conceptual benchmark framework used by EBA in the 2020 survey; b) the case of Iccrea Sustainability Framework. The contribution of our paper is manifold and likely to raise the interest of policymakers. Our argumentations and conclusions are likely to contribute in terms of recognition of the sustainable business model also in the prudential framework in the current COVID-19 economy.

Keywords: Sustainability, ESG Risk, Cooperative Banks, Consolidated Cooperative Network Group

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1. INTRODUCTION

Environmental, social, and governance (ESG) factors are raising the attention of policymakers and regulators worldwide. In general, in the banking, insurance, and pension fund sectors, supervisory authorities are emphasizing sustainability and ESG issues. Sustainable finance has become a common lexicon of both supervisors and financial institutions in recent times, also due to the COVID-19 crisis. In effect, the outbreak of COVID-19, and its global spread since February 2020, has created significant challenges to society and risks for the economic outlook. In the next recession of the COVID-19 economy, it would be strategic for businesses to improve their resilience, through attention to ESG factors. However, it is difficult to give a global valid definition of ESG factors because there are a lot of different definitions and, consequently, operational implications on the three pillars of ESG in the different economic sectors. If firms and banks adopt different definitions of ESG factors, the outputs and differences in the outcomes of disclosures can turn out to be very significant. One of the often-quoted frameworks in which ESG factors are better defined is the United Nations Principles for Responsible Investing (UNPRI), which has been used, as examples, in various reports and impact statements (PRI, 2019):

1. *Environmental issues* have been referred to as climate change mitigation and adaptation, as well as the environment's related risks (e.g., natural disasters). Environmental positive outcomes include avoiding or minimizing environmental liabilities, lowering costs and increasing profitability through energy and other efficiencies, and reducing regulatory, litigation, and reputational risk.

2. *Social considerations* have been referred to the rights of people and communities, as issues of inequality, inclusiveness, labor relations, and investment in human capital. Social risks refer to the impact that companies can have on society. They are addressed by corporate social activities, such as promoting health and safety, encouraging labor-management relations, protecting human rights, and focusing on product integrity. Social positive outcomes include increasing productivity and morale, reducing turnover and absenteeism, and improving brand loyalty.

3. *Governance issues* concern the way companies are run. It addresses areas, such as corporate brand independence and diversity, corporate risk management, and excessive executive compensation; through company governance activities, such as increasing diversity and accountability of the board, protecting shareholders and their rights, and reporting and disclosing information. Governance positive outcomes include aligning interests of shareowners and management and avoiding unpleasant financial surprises¹.

However, the interpretations of ESG single pillars are dependent on how they are determined, i.e., whether they pertain to an ESG factor, an ESG issue, or an ESG risk. Waiting for the EU definition of sustainability risk (EU, 2019), an ESG risk has been defined as the risk of the negative financial impact stemming, directly or indirectly, from the impact that ESG events may have on the bank and its key

stakeholders, including customers, employees, investors, and suppliers. To date, there are multiple variations on the theme of what an ESG and ESG risk are; undoubtedly, it's important to underline that, in the current context, ESG is a new strategic perspective, a new approach to a business willing to name itself as "sustainable". ESG factor's attention is positively and strongly associated with company profitability for both financial and non-financial companies.

The remainder of the paper is organized as follows. Section 2 presents the main features of cooperative bank systems and the sustainability of their business models. Section 3 presents the case of Iccrea Consolidated Italian Cooperative Group and how sustainability is integrated. Section 4 summarizes the conceptual benchmark framework used by EBA (European Banking Authority) in the 2020 survey on sustainable finance. Section 5 provides operational proposals for a supervisor to make incentives in reengineering the business model of banks towards sustainability.

2. LITERATURE REVIEW: ESG ATTENTION AND FIRM'S PERFORMANCE

The ESG risk integration in the planning activities, strategies, or in the business model is a challenge for financial and non-financial companies. It is also an opportunity to improve the economic performance, the value of the share on equity market, funding capacity, the overall reputation of the company in relation to the different stakeholders, which is the risk profile. In fact, in literature, the relationship between ESG and performance has been deeply investigated in the last year. However, only a few recent studies focused on financial intermediaries (Simpson & Koers, 2002; Malik, 2015; Fayad, Ayoub, & Ayoub, 2017; Maqbool & Zameer, 2018). Brogi and Lagasio (2019) investigated and compared the ESG issue in industrial and financial companies. De and Clayman (2010) found that overall ESG scores have a positive association with both subsequent stock returns and return on equity (ROE) even after controlling for sector effect. Do and Kim (2020) analyze the effects of the level and changes in ESG rating on the stock market returns of Korea Composite Stock Price Index (KOSPI) listed firms (over the period of 2011-2018) and found that changes in ESG ratings have statistically significant short-term effects on their abnormal returns.

The effect of deeper attention to environmental issues has been investigated by some meta-analyses (Albertini, 2013; Dixon-Fowler, Slater, Johnson, Ellstrand, & Romi, 2013; Endrikat, Guenther, & Hoppe, 2014) which found a significant positive relationship between environmental performance and corporate financial performance. With regard to the social dimension of ESG, human capital-focused meta-analyses by Crook, Todd, Combs, Woehr, and Ketchen (2011) found highly significant positive correlations between the socially responsible practices and financial performance.

Lastly, the positive relationship between corporate governance aspects (e.g., gender diversity as in Brogi and Lagasio, 2019) and corporate performance is supported by numerous empirical researches, e.g., Dalton, Daily, Johnson, and Ellstrand (1999), which find governance to be a key

¹ https://ec.europa.eu/info/business-economy-euro/banking-and-finance/green-finance_en

driver in the enhancement of performance and suggest that CSR investments should be mainly addressed to it (Nollet, Filis, & Mitrokostas, 2016).

ESG is positively linked to the long-term growth and survival of firms. Given those positive impacts of the ESG factors integration in the business model and the strategic planning to market, financial and economic performance empirically verified; it is important to better understand what happens in the banking sector, especially in the cooperative ones which are by nature and physiologically sustainable.

Reengineering the business model on sustainability by incorporating ESG attention in the decision-making process will not be enough for the European financial sector. Strategically, European authorities and regulators should ensure incentives in this direction. To date, even if the deep impact of regulator's incentives is strategic, several problems remain; one of these relates to the different conceptualization and, therefore, operational considerations, of the three pillars of ESG in the different economic sectors.

In this perspective, the paper means to investigate and answer the following questions:

RQ1: "How sustainable the business model of cooperative credit banks is and how is ESG oriented also in the current COVID-19 economy?"

RQ2: "What are the possible ways, in the prudential supervision framework, to foster higher attention to the ESG paradigm, in the bank's business model?"

The contribution of our paper is manifold and aims at raising the interest of policymakers, regulators, that are invited to reflect on: a) the sustainability already inherent in some business models of the European banking sector; b) the role of ESG attention in the regulatory framework, in the prudential treatment, and in SREP (Supervisory Review and Evaluation Process) assessment overall. The paper tries to give some suggestions to policymakers in the field analyzed.

Our results are likely to greatly contribute in terms of recognition of the sustainable business model also in the regulatory framework on risk and capital in the COVID-19 economy.

3. RESEARCH METHODOLOGY

3.1. Analysis of cooperative bank system: The main sustainable features of their business model

Mainstreaming sustainability into capital and liquidity planning, in the risk governance framework or into the business model formula, will be a fundamental requirement in the near future also after the COVID-19 crisis that has emphasized the importance of focusing the value creation process on the ESG factors.

The recent pandemic crisis represents an occasion, also for the banking sector as a whole, to reflect on the importance of reformulating one's strategic attitude from an ESG perspective. The pandemic is a major shock to the economy of the world that creates a challenging economic context and uncertainty, while it is important to support vulnerable individuals, all the stakeholders, and communities being impacted. This is a challenge of vital importance because, in such periods of financial instability as the COVID-19 crisis, it is

important to create a new normal of business models and sustainability as a key driver.

In this perspective, the COVID-19 crisis is expected to create a new sustainability paradigm that deserves a deeper understanding. This new paradigm could be a great opportunity for cooperative banks since:

- *sustainability* represents, in our opinion, the evolution of the founding values that have inspired the activity of cooperative credit banks in the European market;

- it is a unique occasion for adequate recognition of this business model within the prudential framework based on a principle of proportionality inspired by operational complexity and not operational sustainability.

In the present section, we want to understand how a cooperative bank's business model is sustainable and how effectively is ESG oriented in a regulatory view. In this perspective, it's useful to analyze structural and organizational features of the European cooperative bank systems and their founding values to better understand their concept of sustainability. The history of the cooperative bank model is very ancient; this "new" banking model started up in Germany in 1849 by Friedrich Wilhelm Raiffeisen, who is considered to be the founder of cooperative banking in Europe. Since the beginning, the aim of those banks was to financially support the "excluded" and the weakest sections of the population. The cooperative banking model spread all over Europe and nowadays, European Union counts about 2,816 local independent cooperative banks with more than 51,500 branches and almost 84,000 members, and 713,000 employees².

Co-operative banks are among the market leaders for socially responsible investment (SRI) products such as funds and savings accounts. This system is composed of entities that are different from a legal and organizational point of view, as well as on governance models and ways of relationship with different stakeholders. Despite the wide articulation and differences, the system is united by "a deep interconnection between the typical functions of intermediaries and the social function, thanks to a 'formula' that includes proximity to the territory (via their wide network of branches), solidarity and responsible resilience in the context of belonging; a strong commitment to social responsibility, the solid share of the domestic retail market, fighting against exclusion, social and environmental concerns, resilience, proximity, trust and governance" (EACB, 2019).

Customers and members of cooperative banks are represented in the bank's governance structure through participation on boards, membership councils; thus ensuring the member's interests which are important objectives in the bank's strategic plans. Democratic governance manages the cooperative banking system. This is ensured by limiting the share held by each shareholder and through per capita voting (one person, one vote), while the profit motive is excluded by restrictions on distributing profits (as noted above) by the principle of the indivisibility of reserves.

By following the principle of serving local communities, cooperative banks are also local since their members represent the environment in which the company operates and the deposits collected are used to support and finance the development of real

² <http://www.eacb.coop/en/cooperative-banks/key-figures.html>

economy, thus creating a geo-circular economy. Cooperative banks grant proximity to their clients; they usually try to provide credit to their clients and members in good and bad times. They are key players in financing the real economy, the households and the SMEs, supporting territories and local communities.

The mutual benefit spreads through the pursuit of long-term financial objectives, including offering shareholders their products/services at “advantageous” market terms. Compared to other banks, the person, the commonwealth, and solidarity are always at the center of the activities of cooperative local banks. Co-operative banks are among the market leaders for SRI products such as funds and savings accounts. The cooperative bank’s business model is “of proximity”, “people/community-focused” but how is sustainable in the regulatory view?

Equally important is the resilience of the cooperative banking system (EACB, n.d.); in general, cooperative banks can adapt to environmental changing circumstances, therefore, this feature will be particularly useful in the COVID-19 economy. Cooperative banks have also a lower risk profile and, in general, maintain capital reserves that enlarge their overall capitalization as shown in Table A.1 (Appendix). In the years 2017 and 2018, the total equity is increased for the EU cooperative banks while is stable in the Italian ones; total assets are increased for the EU and Italian ones. Total deposits increased in the EU cooperative banks while decreased for Italian cooperative banks; the same trend has been recorded over the years 2017 and 2018 for the total loans. Italian cooperative banks in the cited years shown a decrease of leverage ratio; for these banks, the trend of the financial and economic indicators is probably due to the implications of the reform process of the cooperative credit system illustrated below.

Net profit after tax shown a decrease in the years 2018, 2017, 2016 and basically stable is the number of clients for European and Italian cooperative banks; slightly increasing in the years indicated the number of members (except for 2018 which recorded a good increase compared to the previous year for European banks) and slightly decreasing for the number of branches (Table A.2).

The cooperative banks’ system seems to be “native” sustainable and so a strategic asset for the European banking market especially in the COVID-19 economy. To date, it is crucial to understand if the “cooperative” concept of sustainability (whose business model is based upon) is consistent with the concept used by the European Commission and the European Banking Authority. To argue in this regard, we will try:

- to analyze, how sustainability is declined within Iccrea Consolidated Cooperative Banking Group;
- to understand what sustainability is in the authority’s perspective; based on the conceptual benchmark framework that was shown in the EBA 2020 survey.

3.2. Cooperative Italian banks: A case study on Iccrea Consolidated Cooperative Group

Italian cooperative banks have recently (2016-2019) undergone a profound structural reform process aimed at reaching adequate dimensions to face

the challenge of technological change and the imposing mass of new rules, guidelines, and principles without renouncing the founding values and the characteristics of mutualism. This is in line with the view of European Regulator related to “too small to survive” which, in short, means that the small size can hinder the survival of the business in a competitive context with a high density of regulatory constraints, high market volatility, uncertainty as it is today.

In its history, the cooperative Italian banking choices and actions have been constantly guided by ethical principles reported in the chart of mutual banking values, which expresses the principles on which the action, strategy, and practices of the mutual banks’ activities are based upon. It also represents a founding chart for the mutual banking movement and guidelines for the action of the mutual banks. The principle of mutuality still distinguishes BCCs (*Banche di Credito Cooperativo* - Cooperative Credit Banks) from the traditional banking system, as declined by the Civil Code rules in Title VI - “Cooperative companies and mutual insurance companies” - by following the provisions of the Civil Code Arts. 2511 *et seq.* The specific business model and the difference of the BCCs from the traditional banking model finds its final declination in the TUB (Italian Banking Law) in Arts. 33 and following (with the relevant changes introduced by the Reform Law No. 49/2016).

TUB and Civil Code define the main regulatory characteristics of the Italian BCCs, namely:

- 50.1% of exposures are intended for members (shareholders) and/or risk-free assets;
- a minimum of 95% of loans must remain in the home territory;
- dividends distributed cannot exceed the maximum interest on interest-bearing postal savings bonds plus 2.5 percentage points concerning the capital paid in (Art. 2514 of the Civil Code);
- the profit for the year reported in the financial statements is distributed as follows:
 - a minimum percentage of 70% to form or increase the legal reserves;
 - a percentage to the mutual benefit funds to promote and expand cooperation, to the extent and in the manner provided by law;
 - any residual profits can be allocated to increasing the nominal share value, as provided by law; allocated to other reserves or funds; distributed to the shareholders, as long as not over the maximum interest on interest-bearing postal savings bonds plus 2.5 percentage points concerning the capital paid in; any residual profits remaining are allocated for charitable or mutual benefit purposes; allocated to the cooperative bank shareholders as a capital dividend, based on the provisions of Art. 50 of the by-laws of the mutual banks.

Moreover, the Charter of Free, Strong, Democratic Finance reiterates the mutual banks’ commitment to taking economic, civil, and social action to relaunch Italy. The Charter sets out the “finance that we want” in ten points, specifically: responsible, social, plural, inclusive, comprehensible, useful, incentivizing, educational, efficient, and participatory.

The reform process of the Italian cooperative banking system started with the publication of Law 49 on April 8th, 2016. This Law 49 obliged all BCCs to adhere to a parent company and consolidate

into a mutual banking group to continue to operate as mutual banks. Before this date, the Italian mutual banking system was a subsidiary and supportive network consisting: autonomous and independent local mutual banks (BCCs); national and local federations representing BCCs interests and providing advisory services; second-tier banking groups, including Iccrea, providing financial services and products to BCCs.

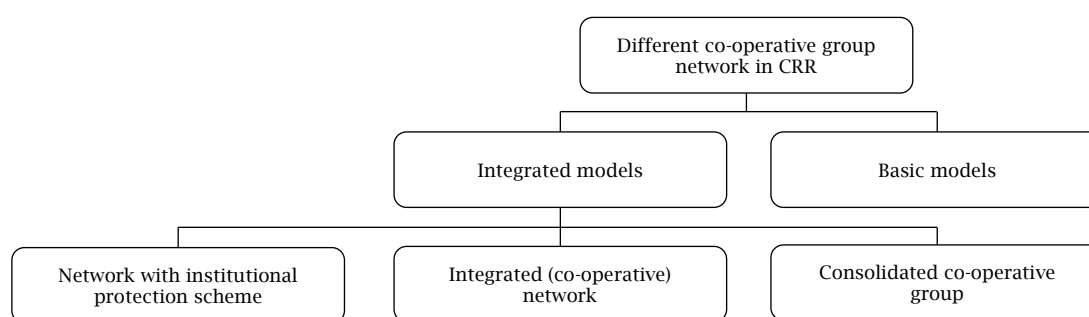
This reform represents a milestone and a major change enabling the Italian BCCs to become part of a new and original organizational model merging local and European culture. BCCs remain autonomous, mutual, and become the main shareholders of the mentioned parent company Iccrea Banca. The reform does not deprive the banks of their identity but rather seeks to preserve the role of mutual banks as local institutions with a predominantly mutualistic mission and enables shareholders to participate in the social capital of the mutual banking system. The main features of

BCC remain in their type of performance and value creation process closely related to the social, economic, and environmental aspects of the territories in which they operate.

In 2019, after a long and complex process, two consolidated groups began operating: one headed by Iccrea Banca (headquartered in Rome) with 136 mutual bank members and the other by Cassa Centrale Banca (headquartered in Trento), with 84 mutual banks. Instead, based on amendments passed by the government in November 2018, Cassa Raiffeisen of Alto Adige opted to form an institutional protection scheme (IPS) as an alternative to a Consolidated Group that would operate only in the province of Bolzano.

As known, the European prudential regulation (EU Regulation No. 575/2013, CRR) provides for various network schemes based on lighter (basic model) or stronger (integrated model) networks (Figure 1).

Figure 1. The “different” cooperative group network



Consolidated Co-operative Group (Art. 10 of the CRR) – it is the “networking” system with the highest degree of economic, financial, and asset integration that allows the parent company and the affiliated banks to be considered as a single entity also by the supervisors who monitor the solvency and the governance of liquidity at a consolidated level. The parent company and the affiliated banks support each other with cross-guarantee schemes stated in the cohesion contract. The parent company sets the guidelines for the management of the individual affiliated banks, for the governance of risks, capital and liquidity.

The Iccrea Consolidated Co-operative Group (GBCI) is the largest co-operative group in Italy and represents a radical changing paradigm and a *unicum* in the European specialized banking system. GBCI consists of a parent company (Iccrea Banca SpA), 136 autonomous BCCs and some specialized “product” companies controlled by Iccrea Banca offering financial services to local BCCs. The process of joining the consolidated group is ruled by a specific “cohesion contract” that governs the operation of the group itself. In particular, with the signing of the cohesion contract, the affiliated mutual banks accept the management, coordination, and control activities of the parent company, without prejudice to the respect for the mutualistic purposes that characterize the mutual banking system. At the same time, the parent company assumes the duties and responsibilities based on the affiliated banks connected with their role as the entity in charge of the strategic and operational management of the group. The compliance to

the group policies is ensured by control and intervention activity which is proportional to the riskiness of the affiliated banks (risk-based approach); as a result, the established early warning system allows to identify, for each BCC, the “balance point” between the power and influence of the parent company and the “autonomy” of the individual BCC. To define an effective and operational efficient group risk/governance system, the early warning system is based on the group risk appetite framework (RAF) and, more generally, on the overall governance system, management, and control of the risks of which it forms an integral part, sharing the areas of assessment, the indicators, the operating rules and the principles that underlie the definition and calibration of the thresholds. The parent company is also the reference institution for supervisory authorities. The table below summarizes some economic, dimensional, and capitalization data.

Table 1. Iccrea Consolidated Co-operative Group

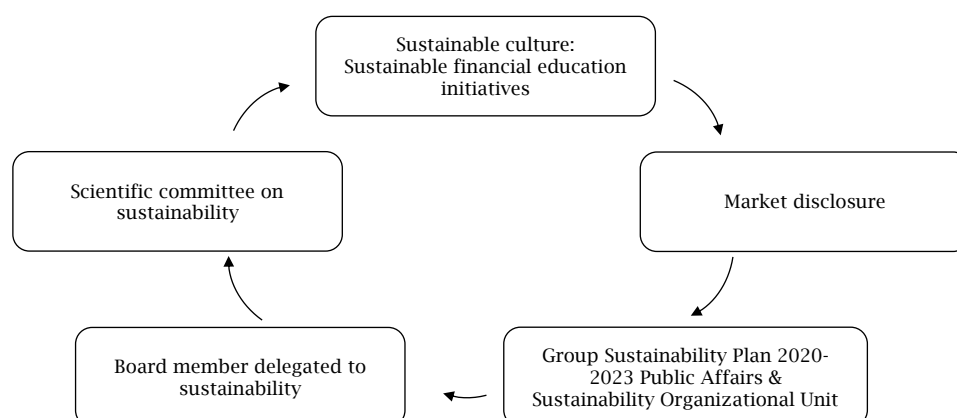
No. of shareholders	807.411
No. of BCCs	140
No. of depositing clients	3,2 million
Total assets	155,5 billion
Tier 1	15,5% Tier 1 ratio
Common equity	15,5% Common equity tier 1 ratio
Total capital ratio	16,3% Total capital ratio
Total loans	85,2 billion
Leverage ratio	6,6%
ROE	2,4%
Cost to income	73,9%

Source: Consolidated balance sheet 2019 and Consolidated non-financial report of Gruppo Bancario Cooperativo Iccrea (2019).

As for the challenge of sustainable finance, GBCI collects, enhances, and shares all the immense work performed daily by its mutual banks ensuring support in their territories. This governance and operating model is constantly evolving to apply the indications coming from the European authorities in terms of ESG factors integration. The group aim is to design and implement concrete actions daily promoted by BCCs up as formal ESG oriented activities, showing rigorously that BCCs' banking model brings an effective contribution to the socio-economic well-being of local communities. GBCI considers sustainability as an opportunity to reaffirm the principles and values of credit

cooperation but also as a means to deeply impact the value creation process for all the stakeholders also in the COVID-19 economy. To emphasize the physiological sustainability of the business model of affiliated cooperative banks, the group has started a process of change that has led to a new sustainability governance framework soon after its constitution (Figure 2). The starting point is an improvement of the sustainability culture process due to the lack of information, awareness, and sensitivity on the topic of sustainable finance, at all internal organizational levels and towards all external stakeholders, which is the main obstacle for the operational feasibility of the strategic plans.

Figure 2. The sustainability governance framework of GBCI



Source: Consolidated non-financial report of Gruppo Bancario Cooperativo Iccrea (2019).

This framework (Figure 2) is articulated on:

- The improvement process of sustainable culture with financial education initiatives. Sustainability is firstly a cultural problem, GBCI is developing educational programs among its stakeholders to lead a cultural change in the organization and management as well as in the stakeholders to raise their awareness of sustainability.
- The identification of a board member delegated to sustainability issues. The delegated director is responsible for the non-financial reporting, the sustainability plan, and the integration of ESG factors into group strategies and decision-making process.
- The institution of a Scientific Committee for Sustainability. It is made up of experts from various sectors (universities, business, associations) representing the group's main stakeholders with the role of conceptualizing the group's strategic framework on sustainability, integrating the different points of view represented, and defining sustainable strategic development drivers in line with the competitive and regulatory context and the risk, capital, and liquidity system governance of the same group.
- The institution, in the organizational system, of a new Public Affairs & Sustainability Organizational Unit. This function deals with the elaboration of the group consolidated non-financial report, sustainability plan, strategies, and main commitments.

As for non-financial consolidated report (NFCR), Iccrea Cooperative Banking Group publishes the non-financial report by following Legislative

Decree No. 254/2016, with which it communicates to the market news and data on the non-financial activities of the Iccrea Group.

The report integrates the financial information provided with the financial report and with the public disclosure required by prudential legislation.

Iccrea's non-financial reporting consolidates 140 CBs, 15 companies of the direct and indirect perimeter. Besides 46 organizational units of the parent company (Iccrea Banca SpA) are involved in the reporting process. The 2019 Declaration is published separately from the financial report.

The Group Sustainability Plan 2020-2023 is strictly integrated into the strategic plan of the group and based on three pillars that represent the founding values of the cooperative mutual banks (BCCs): cooperation, mutualism, localism. The group's first sustainability plan was approved by the board in March 2020 and integrated into the industrial plan. The sustainability plan includes objectives to be reached by group companies and BCCs and two Commitment Charters in the field of environment, climate change, and human rights. In this plan, the group has the opportunity to translate the mutualistic language - which has characterized our mutual banks since their foundation - into measurable objectives aligned with the 17 internationally recognized SDG's of the 2030 agenda defined by the UN in 2015. The sustainability plan promotes a fair and sustainable model of growth according to the following strategic priorities:

- supporting local economies towards sustainable transition while respecting the European principle of *leaving no one behind*;
- enhancing the biodiversity of cooperative credit banks in order to address the available

European economic resources to the sustainable transition of the local territories;

- by trying to strictly integrate the sustainability plan in risk governance, capital, and liquidity allocation.

The sustainable plan (Table 2) is essentially composed of three cornerstones, with 30 medium-long term objectives under 16 macro goals for the benefit of the territory, environment, people, and communities.

Table 2. Sustainable plan: Main strategic lines

Territory	<ul style="list-style-type: none"> • Goal 1.1. SMEs and families • Goal 1.2. A green deal for territories • Goal 1.3. Contrast to the depopulation of small municipalities • Goal 1.4. Microcredit and contrast to usury
Environmental	<ul style="list-style-type: none"> • Goal 2.1. Green and circular economy • Goal 2.2. Sustainable finance and investments • Goal 2.3. Adaptation to climate change • Goal 2.4. Partnership for sustainable development • Goal 2.5. Sustainable agriculture • Goal 2.6. Efficient management of offices and supply chain
People and communities	<ul style="list-style-type: none"> • Goal 3.1. Third sector and social enterprises (including benefit corporations) • Goal 3.2. Financial education and support to students • Goal 3.3. Mutualism and sustainability • Goal 3.4. Gender gap • Goal 3.5. Common sustainability culture • Goal 3.6. People care and welfare

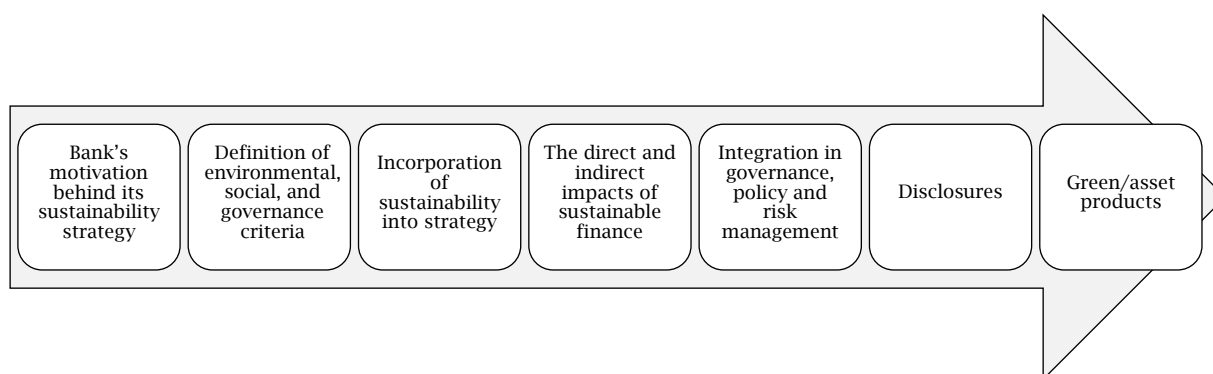
3.3. Results on GBCI in relation to EBA view on sustainable finance

In this section, we want to analyze the EBA view on sustainable finance and the gap between its conceptual sustainable framework and the sustainable framework of GBCI. EBA (2020) assess the understanding of ESG considerations within the banking context and examines the current market practices in this area, in particular, try to understand: 1) the development of a uniform definition of ESG risks; 2) the development of appropriate quantitative and qualitative criteria for the assessment of the impact of ESG risks on the financial stability of institutions; 3) the arrangements, strategies, processes, and mechanisms to manage ESG risks; and 4) methods

and tools to assess the impact of ESG risks on lending and financial intermediation activities. The survey was conducted voluntarily and yielded responses from 39 European banks and is based on 7 key issues:

- banks' motivations behind their sustainability strategies;
- ESG definition adopted and specific ESG criteria that the banks apply;
- how strategy on sustainability is embedded across global business objectives;
- direct and indirect impacts of institutions' financed activities;
- integration in policy, governance, and risk management function;
- disclosures;
- green and asset products.

Figure 3. Conceptual framework of EBA's survey



Source: Author's elaboration on EBA (2020).

Although many of the overarching EBA's survey responses indicated that the incorporation of sustainability into business objectives remained at the CSR level, in the case of GBCI sustainability is the heart of their businesses model; it is a physiological feature of cooperative banks that is expressed in the operational perimeter of mutualism, localism, cooperativism as expressed not only in the sustainability plan but also in the strategic plan overall.

The survey results show that, given that there is no common definition of ESG, banks are relying upon various international frameworks and standards to define ESG factors, although some of them use their definitions. This demonstrates that there is a current lack of commonality about ESG factors; the definition adopted by GBCI as illustrated in the table and finds its basis on Art. 2 of BCCs' by-law which defines their social and economic mission. BCCs' main mission could be summarized in the promotion of "responsible and sustainable

growth of territories” and in “the choice to build the common good”. According to GBCI’s vision, the care for the environment is a means for protecting people and the community: the financial balance of mutual banks is closely related to the social, economic, and environmental well-being of the areas in which they operate.

GBCI declines ESG aspects starting from the founding principles of cooperation and

mutualism expressed in the Cooperative Credit Charter of Values and enhancing the “person” and “human capital” – intended as members, customers, and collaborators – at the heart of its business. Main ESG aspects of GBCI find their deployment into concrete objectives in the Group Sustainability Plan and into actions in the Charters of the Group’s Commitments regarding the environment and climate change, and human rights.

Table 3. GBCI definition of ESG factors

<i>Environmental</i>	<i>Social</i>	<i>Governance</i>
<p>It includes aspects relating to the quality of the environment, the balance of ecosystems, and the protection of the environmental heritage. Environmental aspects for GBCI are represented by:</p> <ul style="list-style-type: none"> • climate change intended as mitigation, adaptation, and emergency management; • the efficient use of resources and natural capital, including soil, energy, and water; • the protection of biodiversity and promotion of sustainable agriculture; • pollution prevention and reduction; • the efficient management and reduction of waste and the transition to a circular economy; • efficient models of local development. <p>All “E” factors are aligned to most of the Environmental Sustainable Development Goals of the 2030 Agenda and to the main environmental objectives recognized by the EU 2020/852 Regulation on Taxonomy.</p>	<p>It includes all aspects relating to the rights, well-being, and legitimate interests of people, and local communities that represent the main external stakeholders of GBCI. The social aspects of GBCI can, therefore, be represented by the following factors, all aligned with the Sustainable Development Goals of 2030:</p> <p style="text-align: center;">Rights</p> <p>Respect and protection of:</p> <ul style="list-style-type: none"> • human rights towards and by all stakeholders (members, customers, employees, suppliers); • diversity and equal opportunities; • rights of local communities; • health and safety at work; • privacy and IT security. <p style="text-align: center;">Communities</p> <ul style="list-style-type: none"> • improvement of the moral, cultural, and economic conditions of the territory (Art. 2 of BCCs Statute); • strengthening social capital; • solidarity, support to local initiatives, Third Sector, and associations. <p style="text-align: center;">People and inclusion</p> <ul style="list-style-type: none"> • financial inclusion and fight against usury; • financial education and dissemination of the culture of sustainability; • the centrality of the “person” in the development of technological innovations and artificial intelligence; • people care and corporate welfare; • enhancement of human capital through training and professional growth. 	<p>It includes all aspects regarding the good governance of the group and stakeholder companies. Good governance is fundamental for creating value within the group and among society. According to GBCI’s vision, the following aspects are included in the “G” factor:</p> <ul style="list-style-type: none"> • ownership structure; • structure and independence of governing bodies; • ethics and integrity of corporate practices; • compliance with internal and external polices and regulations; • contrast to corruption and money laundering; • management of conflict of interests; • transparency in terms of information and relations with customers and suppliers; • mechanisms of management remuneration; • respect for shareholders, stakeholders, and members’ rights. <p>Concerning the specific good governance of GBCI and adherent BCCs, it is significant to integrate “G” aspects with the following “G” principles:</p> <ul style="list-style-type: none"> • democracy: BCCs democratic governance under the principle of “one head-one vote”; • mutualism: more than 51% of BCCs’ risky activity is in favor of BCCs’ members; • localism: 95% of banking operations on the BCCs local reference territory; • exclusion of “sensitive” sectors from all GBCI operations in compliance with the group’s ethics.

Most banking institutions refer to ESG factors as the pillars of sustainability; GBCI, in its concept of sustainability, also consider the values of Cooperation, Mutualism, Localism. In this perspective, it’s important to widen the interpretation of these values deepening them in the direction of ESG.

A fundamental part of the EBA questionnaire was to establish whether sustainability is already embedded into banks’ business strategies and what is, just in case, the ratio behind this. All the institutions answering the EBA survey incorporate sustainability into their business strategies in various ways, mainly by:

- participating in external networks that support sustainable finance;
- defining ESG objectives;
- publishing-related policy statements;
- approving of and supporting specific principles based on international standards;
- dedicated to staff training.

Although many of the overarching responses indicated that the incorporation of sustainability into business objectives remain at the CSR level, data suggest that some banks, including GBCI, are

taking sustainability beyond CSR, trying to study the best way to embed ESG attention in risk governance, capital, and liquidity allocation.

ESG-related factors or issues, as stated previously, have impacts upon or from an asset. As part of the survey, respondents were asked whether they took into account the impacts, both direct and indirect, of the activities they finance as part of their business strategy. Some examples of impacts considered by banks include those impacts on the environment and society by using natural resources in carrying out its operations and gradual integration of environmental and social risks into the bank’s risk management framework. This is meant to achieve mitigation of these risks based on the principle of prudence, local and global impacts of investments, credits, and purchases, especially in the context of climate change and considering greenhouse gas emissions, negative and positive impacts regarding the screening of investments in the financial markets: damaging investments for which the bank applies exclusion criteria (e.g., arms manufacturing companies, manufacturers of specific components for the military industry, tobacco manufacturing companies).

The group's attention to direct and indirect impacts on communities and territories takes its foundation directly from the Statute (Art. 2³) of its local banks as well as in the Code of Ethics of the parent company Iccrea Banca, founding its concrete implementation in the Charter of Environmental and Climate Change Commitments and the Charter of Human Rights Commitments (both charters are aligned with UN Sustainable Development Goals, the Paris Agreement on Climate Change, and main international commitments).

Regarding direct impacts, the group has been investing in several initiatives addressed to contrast negative environmental impacts⁴ and attaining the LEED certification⁵ on the headquarter building of the parent company. On the side of the indirect impacts, the Iccrea Group has excluded the possibility to finance "controversial" sectors of activity as defined in the Code of Ethics and the Group's Credit Policy. In particular, sectors related to production, distribution of weapons (excluding weapons for sports or leisure activities), video-poker, slot machines, and all sectors related to pornography.

Furthermore, BCCs are used to promote local projects on their respective territories addressed to produce positive impacts on the environment, people, and communities. Some particular best practices at local banks' level are worthy to be mentioned:

- *Ethical Fund*⁶ for local projects on social service, culture, environment, health, and sports promoted by BCC Basilicata;
- *MUG, Magazzini Generativi*⁷ (developed by Emil Banca), a place where innovative ideas meet technical and financial coaches and investors;
- *Per Amor di Maremma*⁸ (launched by Banca TEMA), a new economic initiative dedicated to the environmental resilience of the local territory.

Most banks report difficulties in implementing sustainability within the business (important steps forward must also be taken by the GBCI) mainly because of time horizon, in-progress regulation, and lack of understanding of the potential impacts of climate change. It is important to underline that the economy produced by the integration of ESG factor in business strategy is not clear yet. Besides,

no regulatory incentive in the framework on risk and capital has been foreseen.

EBA survey was mainly meant to have a deep insight into the governance, policies and risk management of banks. The survey responses are heterogeneous: some banks report to upgrade sustainability beyond a purely CSR function and incorporate it into other dedicated business functions. Nonetheless, the upgrading is not reaching the risk management function, as shown below in the section on risk management. In fact, banking institutions responding to the survey are using or developing different risk management tools. Some of them provide ESG-related advice to help clients manage ESG-related risks and assign ESG risks rating to (a subset of) clients as a result of specific ESG risk assessment processes. In this way, they are taking ESG risks into account in their credit policies to identify both risks and opportunities. The banks analyzed in the survey appear to be treating ESG factors and issues as drivers of existing prudential risk categories and seeing them as a channel of most risk categories with except for liquidity risk.

GBCI believes that the ESG integration in risk governance, capital, and liquidity allocation is the real challenge to move on to an ESG paradigm in the new COVID-19 economy to allocate capital and liquidity to the sustainable sector of the economy.

The activities reported in the Consolidated non-financial report show the Iccrea Group's commitment to economic and market growth and the attention to social and environmental sustainability, which have always been primary objectives of the 136 local cooperative credit banks of the Iccrea Group. This is reported in the recently issued Iccrea's NFCR (Gruppo Bancario Cooperativo Iccrea, 2019). It also reports that the BCC affiliated with the Iccrea Group have carried out social impact operations for 1.7 billion euros and 41.5 million in charities, sponsorships, and contributions to the mutual fund for the development of cooperation.

BCCs have generated 8,556 transactions thanks to the Italian Guarantee Fund, financing SMEs for over 1 billion euros. Iccrea Banking Group has also implemented 2,800 environmental impact initiatives for 71 million euros and 168 million in favor of agribusiness. Besides 99.5% of the group's purchases come from Italian suppliers. As for the direct environmental impacts, over 64% of the electric power used by the group comes from renewable sources. The commitment of the Iccrea Group in support of the local communities made it possible, in 2019, to allocate almost 47% of its credit loans to households (consumers and producers) and micro small and medium enterprises (mPMI). On July 26th, 2020, more than 100 BCC and their customers/shareholders have donated almost 8 million euro to fight against the spread of the coronavirus.

GBCI has started the ESG integration process from the governance level with the nomination of a board member delegated to sustainability and the launch of two high-level committees on sustainability: a Chief Committee and a Scientific Committee. On a policy level, improvements have been made by the approval of a policy and a process regulation on non-financial consolidated reporting and of the two Commitment Charts (on Human Rights and Environment and Climate Change), whose contents will be integrated into other internal

³ Art. 2, BCCs Statute: "[...] the company aims to support its members included the ones of local communities in bank operations and services, pursuing the improvement of the moral, cultural and economic conditions of them and promoting the development of cooperation and education for savings and pensions as well as social cohesion and responsible and sustainable growth of the territory in which it operates [...]".

⁴ Main actions on reducing direct impacts are represented by restyling for energy efficiency of the headquarter building in Rome; purchase of certified green electricity and natural gas through the BCC Energia Consortium; activation of a photovoltaic system (for more information see Gruppo Bancario Cooperativo Iccrea, 2019).

⁵ An international environmental certification focused on the management and maintenance of buildings.

⁶ The fund is aimed at providing charitable contributions and mutuality set aside by the bank and dedicated to the whole local community: people (individuals, families, businesses), environment, cultural and social heritage. The fund is accompanied by specific regulations which rules, in a transparent and timely manner, the criteria and processes for disbursing contributions. The fund's commitment is dedicated to five areas: social service, territory, culture, environment, health, and sports, according to a detailed and transparent approval procedure.

⁷ MUG consists of a technologically advanced area of 1,750 square meters in the center of Bologna, vaulted to encourage contamination between startups, young talents and consolidated companies. A place where the local BCC can deal with those who promote the development of the circular economy, sustainable projects and other brilliant initiatives that bring positive impacts to the communities.

⁸ The project is based on facilitated and innovative financial instruments, dedicated to local farmers. The project aim is to counteract phenomena (in particular, natural ones) that risk jeopardizing – sometimes up to distort them – the landscape, nature and resilience of agricultural production.

policies in the next months. On the risk management side, further steps are still needed. The main obstacles to the integration of ESG risks in the GBCI's risk management structure depend on the GBCI's core business (SMEs and families) and the GBCI's complex organization (a consolidated group composed of 136 different and autonomous local banks). Due to their dimension and lack of specialized professionals, SMEs face more difficulties in investing in sustainable processes and, most of all, in collecting ESG information (especially quantitative) necessary for integrating ESG factor in the banking process, procedures and evaluation measures.

The development of an ESG integrated management framework based on the integration of ESG factor in the risk management system has been firstly included as the basic medium-term framework of the Group Sustainability Plan and later as a key driver of the Group Transformation Plan. This evolution will allow the group to formalize and merge several of the best practices promoted by the group corporate bank and those ones locally implemented by BCCs, especially in the integration of ESG factors in loan origination procedures. *Iccrea BancaImpresa* - the group corporate bank - has been financing renewable energy projects for years. In dealing with this kind of operations assessment of environmental impact (including impact on territory) is a fundamental step of final project evaluation (for further details see Gruppo Bancario Cooperativo Iccrea, 2019). Among the best practices, it is interesting to mention the "human rating", a method adopted by BCC Napoli in the loan evaluation procedure; the "impact approach" implemented by Emil Banca in specific loans dedicated to associations; the "environmental screening" applied by Banca TEMA in lending to green activities.

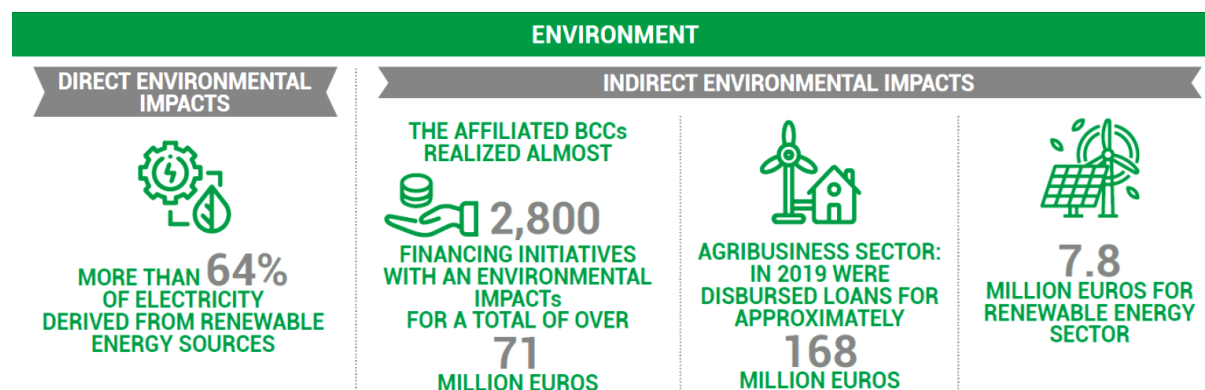
Nowadays GBCI has no risk management practice about environmental, social, and governance risk and it doesn't make a scenario analysis to support the sustainability strategy. Transitional and physical risks related to the environment (such as climate change) are the main potential material risks also for GBCI. Physical risks have been described as those risks that can affect financial stability directly through the impact of more frequent and/or severe disasters, weather events and gradual climate changes. When physical risks materialize they can cause property damage disrupt the economy, e.g., trade, and heavily erode collateral and asset values. Value losses can be abrupt specifically in

climate risk-sensitive geographical areas. Transition risks are derived from making adjustments towards achieving a lower carbon economy. Transition risks occur when financial markets are harshly affected by the uncertainties related to the timing and speed of adjustments towards a low-carbon economy, including the impacts of policy action and technological improvement on the asset prices of carbon-related stock (Giuzio et al., 2019). This line deserves the most prominent attention from a prudential risk management perspective.

The theme of climate change risk is by all means strategic even if it is not yet formally integrated into the GBCI current risk management framework. Being BCCs' business strictly related to the development of local economies, any climatic event can quickly turn into a financial risk jeopardizing the solidity of the group. Accordingly, in the Chart of Environmental and Climate Change Commitments, the group engages itself in increasing the offer of responsible and green financial products, to gradually decarbonize the investment portfolio and integrate environmental factors in the loans macro-process. Furthermore, climate change risk has been taken into account in 3 macro-goals of the Sustainability Plan, specifically: *Green deal for territories* (aims at making European resources dedicated to the just ecological transition, available for Italian local territories and contributing to the local sustainable development); *Green and circular economy* (this goal consists of supporting the ecological transition through financing the green economy and the circular economy); *Climate change adaptation* (this goal is focused on financial support to adapt and prevent financial and economic damages faced by partners and customers located in geographic areas subjected to climatic events; climate change mitigation requires a global commitment while adaptation is strictly local).

Transparency plays a key role in promoting market discipline through the disclosure by institutions of meaningful, consistent and comparable information, reducing the asymmetry of information between institutions and users and helping stakeholders to make informed decisions. The vast majority of the banking institutions that participated in the survey on market practices currently disclose ESG information (31 out of 39), as non-financial information which is included in their published financial statements or the annual report as part of their CSR.

Figure 4. Environmental: Direct and indirect costs



Concerning green assets/products, it's important to underline that 90% of the banks responding to the EBA questionnaire have developed (or planned to develop) green products and/or services based on environmental factors; 80% also consider developing products based on social criteria.

Also, 65% of the banks are planning to develop products and services based on governance considerations (EBA, 2019). Among the green products or services, energy-efficient mortgage loans are the most popular (75% agreement), while 50% of the banks have planned or are planning to develop products on green CRE loans.

In the case of GBCI banking products and financial services take into account environmental as well as social considerations (see Gruppo Bancario Cooperativo Iccrea, 2019, for details about products and projects). Referring to

the environmental factor, banking products offered by the group are mainly concentrated in financing renewable energies, energy efficiency, organic agriculture, and biogas production. Financing tools are mainly represented by project finance and loans to corporate and retail clients. On the social side, GBCI supply of financial products is definitively wider. Tailor-made products for social enterprises and associations have been developed both by BCCs and the parent bank. Socially oriented products offered by GBCI are mainly represented by dedicated current accounts, payment cards, loans, and assistance in terms of advisory and information. GBCI loans to the no-profit sector represent 10% of the domestic market share. Every year, BCCs dedicate a percentage of non-distributed profit to support local initiatives with a social positive impact (about 29,5 million euros in 2019) (for more details see Gruppo Bancario Cooperativo Iccrea, 2019).

Table 4. EBA survey conceptual framework and GBCI view: A comparison (Part 1)

Banks' motivations behind their sustainability strategies	The concept of sustainability is the natural evolution of the mutualistic DNA of cooperative credit banks.
	BCCs has been founded in the late '800 to cope with the issue of financial exclusion of a significant part of the society.
	BCCs are mutual and local banks. Capital and financial resources are collected in the territory and deposits are used to support and finance the development of the local real economy, creating a geo-circular economy.
ESG definition adopted and specific ESG criteria that the banks apply	GBCI's definition of ESG factors is wider than the mainly recognized universal one. Aspects that are very cooperative and mutualistic specific are included in the GBCI's ESG definition. As an example, the promotion of social capital through cooperation and mutualism is included in the "S" factor as well as democratic governance (one head one vote) is integrated into the "G" factor. Furthermore, GBCI adopts the integral ecology principle, where "E" and "S" are strictly interconnected.
How strategy on sustainability is embedded across global business objectives	A Sustainability Plan has been approved as a part of the Strategic Plan 2020-2023. It is composed of 30 ambitious objectives within 3 strategic lines: territory (economic growth), environment and climate change (green growth and transition), people and communities (social growth).
	In 2020, Iccrea Group has also approved two commitment charters: the Environmental Charter and the Human Rights Charter. Contents of these documents will be integrated into other Group Policies.
Direct and indirect impacts of institution financed activities	Direct impacts.
	Iccrea Group has put in place specific initiatives for reducing the direct negative impact on the environment: energy efficiency measures, renewable energy production certified green electricity and natural gas, etc.
	Concerning indirect impacts.
	Exclusion criteria. Iccrea Group doesn't finance sectors of activity deemed as "controversial".
Challenges to implementing sustainability into your business	Specific local projects promoted by BCCs to support the sustainable development of local communities.
	While GBCI has been developing financial products dedicated to specific ESG targets or activities (i.e., renewable energies, energy efficiency, third sector and associations, micro-finance, etc.), a challenge still remains regarding the development of an ESG integrated framework. Integrating ESG considerations (in terms of impact, risks, and opportunities) in the whole banking activity (credit, investment, corporate finance, capital, and liquidity management, etc.) is going to be quite challenging due to the lack of data and ESG information from GBCI clients (mainly SMEs) and the complex structure of the group composed by 136 local different banks.
Integration in policy, governance, and risk management function	While there is evidence of several high-quality practices promoted by the group corporate bank and local BCCs in ESG considerations in loan origination, ESG factors have not been officially integrated yet in the risk management framework, EWS, and RAS/RAF. Important steps have been implemented in sustainability governance and polices.

Table 5. EBA survey conceptual framework and GBCI view: A comparison (Part 2)

Disclosures	On the institutional website of the Iccrea Group, there is a section dedicated to sustainability.
	The Consolidated Non-Financial Statement was published within and outside the group via an Integrated Communication Plan which, in line with the brand identity of the Iccrea Group, also provided for the publication of the NFCR 2019 on the websites of the single BCCs.
	The director for sustainability delegated by the board has made a video interview, in collaboration with corporate communication, on the main contents of the declaration. The video was launched during the shareholders' meeting.
	The declaration was also produced in a short version to facilitate reading by all stakeholders.
Green products	GBCI's main supply of green products consists of project financing and dedicated loans for renewable energy, energy efficiency, sustainable agriculture, and biogas production.

4. CONCLUSION

In the banking, insurance, and pension fund sectors, supervisory authorities are increasingly emphasizing CSR and ESG issues. The outbreak of COVID-19 and its global spread since February 2020 has created significant immediate challenges to society and risks for the economic outlook underlying the importance of environmental, social, and governance context. Although the long-term magnitude of economic shock cannot yet be quantified, it will likely dampen the economic activity. In this perspective, companies and financial intermediaries are introducing several measures to ensure business continuity and supporting adequate services to their customers, facing operational challenges. Supervisors are working with banks as they maintain their support to household and corporate sectors, particularly to micro, small and medium enterprises, and ensure the basic needs of their customers are satisfied;

in this manner, supervisors and banks are tracing a new paradigm by marking the importance of ESG factors in the business model.

Before the COVID-19 emergency, European Commission and the ESAs had already outlined a framework of actions to which it will be appropriate, before it becomes mandatory, to adapt. As an example, the 2030 Agenda for Sustainable Development, adopted by all UN member states in 2015, has been translated into the European Commission's Action Plan (EC, 2018). It consists of the following three objectives: 1) to reorient capital flows towards sustainable investment to achieve sustainable and inclusive growth; 2) to manage financial risks stemming from climate change, environmental degradation, and social issues; and 3) to foster transparency and long-termism in financial and economic activities. These objectives are supported by 10 actions illustrated below (Figure 5).

Figure 5. European Commission Action Plan: The 10 actions



The European Commission is evaluating the introduction of the so-called “green supporting factor”, aimed at reducing the minimum capital requirements of banks that operate sustainable investments, whose risk profiles are effectively reduced by business strategies. The amended Capital Requirements Regulation (CRR2) includes the requirement for large institutions to disclose information on ESG risks, including transition and physical risks, from June 2022 as part of their Pillar 3 report. CRR2 also includes the mandate for the EBA to implement these disclosures in a way that

conveys sufficient comprehensive and comparable information on institutions' risk profile. EBA action plan foresees three mandates for EBA in the area of sustainable finance. This is intended to improve the current regulatory framework for financial institutions to foster their operations in a sustainable manner (e.g., contributing to sustainable development objectives and managing ESG risks) and introduce sustainability awareness in financial institutions' strategy and risk management (EBA, 2019).

To fulfill their mandates EBA and other regulators must preserve the business model

diversity of the European banking sector also in declining the proportionality principle. In this paper, we have analyzed the main structural features of the cooperative banking system and its peculiar concept of sustainability based on the strategic value of localism, mutualism, cooperativism.

In this paper, we have extensively argued on the reality of the European native sustainable banking sector and also on the gaps that these peculiar banks will have to fill in on sustainability issues in the near future. We deep analyze the EBA (2020) view on sustainable finance and the gap between its conceptual sustainable framework and the sustainable framework of GBCI.

We are firmly convinced, at the end of our analysis, that the challenge of integrating ESG in the decision-making process must be accompanied by tangible incentives within the regulatory framework on risk and capital. If the integration of ESG issue in the business model is a strategic priority for the real economy and the resilience of the financial system, it could be useful to integrate it in the assessment of the business model within the SREP process, possibly rewarding the ESG integration with a “discount” on the business model analysis score. Besides, it could also be interesting to enlarge the bank’s governance assessment with the necessary explanations on the “G” factor out of the ESG framework (in the case, for example, of a presence in the board of a member delegated to sustainability with specific and documented function and roles; or remuneration policies that link variable remuneration of general management to qualitative ESG, etc.).

Nonetheless, if ESG is also a family of risks, its mapping, measurement, and mitigation (with well-documented tools, policies, orders) could turn into a small discount on the additional capital buffers requested or on the P2R (Pillar 2 Requirement) that

may be required downstream of the final SREP Score and SREP decision or a final discount on P2G (Pillar 2 Guidance) required downstream of the EU-wide macro stress test.

In this perspective, ESG integration should also be included in the capital adequacy (ICAAP) process at different levels. Currently, several banks do not include ESG risk in their risk map. This is probably due to the setting of the regulatory framework and not only to a lack of the risk management system by the individual intermediary. If the ESG risk were mentioned in the mandatory mapping for ICAAP (internal capital adequacy assessment process) purposes, it would consequently be integrated into the risk assessment of the banks. Hindsight, for example, banks have not integrated liquidity risk into their mapping until this has become a regulated risk.

To conclude, ESG integration in both industrial companies and financial institution remain of fundamental importance also after the COVID-19 crisis that emphasizes the importance of environmental, social, and governance pillar.

Regulators and authorities should emphasize the financial intermediaries’ supports to redirect the business model towards ESG factors giving tangible benefits in terms of prudential treatment, SREP final score, Pillar 2 Requirements, and something else. Otherwise, attention to ESG factors will continue to be an element of virtuosity which will characterize some business models not adequately valued in the prudential supervision framework. A virtuosity that, in the long term, could risk being crushed by a supervisory framework that does not capture the diversity of business models which is also still largely sustainable.

In this perspective, the paper is important for future research also in relation to regulatory framework evolution; its main limitation is related to our argumentations based on one case study (GBCI).

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APPENDIX

Table A.1. Financial and other indicators

	Total assets (EUROmio)	Δ% Total assets (EUROmio) PY*	Total deposits from customers (EUROmio)	Δ% Total deposits from customers (EUROmio) PY*	Total loans to customers (EUROmio)	Δ% Total loans to customers (EUROmio) PY*	Total equity (EUROmio)	Δ% Total equity (EUROmio) PY*	Leverage ratio (%)	Δ% Leverage ratio (%) PY*	Total capital ratio (%)	Δ% Total capital ratio (%) PY*
Total EU Cooperative banks 31.12.2018	7,423,739	3,2	3,864,556	3,3	4,311,794	3,00	504,722	5,3	-	-	-	-
BCCs 31.12.2018	213,700	0,8	146,000	-7,9	128,000	-2,4	19,400	0,0	8,4	-26,3	16,9	-1,2
Total EU Cooperative banks 31.12.2017	7,195,749	1,1	3,741,769	3,6	4,184,179	2,2	479,335	4,4	-	-	-	-
BCCs 31.12.2017	212,0	-2,6	158,440	-1,4	131,200	-1	19,400	-2,5	11,4	-0,9	17,1	-1,2
Total EU Cooperative banks 31.12.2016	7,120,915	2,4	3,611,185	3,2	4,093,347	4,1	459,340	n/a	-	-	-	-
BCCs 31.12.2016	217,600	-1,6	160,680	-0,7	132,500	-1,1	19,900	-2	11,5	0,9	17,3	1,8
Total EU Cooperative banks 31.12.2015	6,957,089	-	3,499,584	-	3,933,592	-	n/a	-	-	-	-	-
BCCs 31.12.2015	221,100	-	161,800	-	134,000	-	20,300	-	11,4	-	17,0	-

Source: European Association of Cooperative Banks (2020) (www.each.coop).

Notes: * PY = previous year. ** These indicators are calculated by TIAS which bears the full and sole responsibility. These figures are neither reported nor formally approved by the respective co-operative banks.

Table A.2. Economic and other indicators

	Net profit after taxes (EUROmio)	Δ% Net profit after taxes (EUROmio) PY*	Cost/income ratio (%)	Δ% Cost/income ratio (%) PY*	No. of employees Full time equivalent	Δ% No. of employees Full time equivalent PY*	No. of clients	Δ% No. of clients PY*	No. of legally independent local OR regional cooperative banks PY*	Δ% No. of legally independent local OR regional cooperative banks PY*	No. of branches (in home country) PY*	Δ% No. of branches (in home country) PY*	No. of members	Δ% No. of memb. PY*
Total EU Cooperative banks 31.12.2018	29040	-	-	-	712,678	-0,9	209,559,728	0,1	2816	-3,4	51,588	-3,1	83,903,655	3,4
BCCs 31.12.2018	600	140	70,0	1,9	29,383	-2,4	6,000,000**	0	268	-7,3	4,233	-0,5	1,290,000	1,2
Total EU Cooperative banks 31.12.2017	n/a	-	-	-	719,299	-1,8	209,322,220	0,1	2914	-7,0	53,262	-7,5	81,182,507	0,8
BCCs 31.12.2017	250	347	68,7	-1,4	30,103	-1,2	6,000,000**	0	289	-13,7	4,255	-1,3	1,275,000	1,9
Total EU Cooperative banks 31.12.2016	n/a	-	-	-	732,740	-2,1	209,024,394	-0,3	3135	-22,7	57,597	-1,9	80,572,857	1,5
BCCs 31.12.2016	-97	-1	69,7	17,7	30,475	-16,5	6,000,000**	0	335	-8,0	4,311	-2,3	1,250,992	0,2
Total EU Cooperative banks 31.12.2015	n/a	-	-	-	748,820	-	209,645,083	-	4056	-	58,713	-	79,391,878	-
BCCs 31.12.2015	-96	-	59,2	-	36,500	-	6,000,000**	-	364	-	4,414	-	1,248,724	-

Source: European Association of Cooperative Banks (www.eacb.coop).

Notes: * PY = previous year. ** These indicators are calculated by TIAS which bears the full and sole responsibility. These figures are neither reported nor formally approved by the respective co-operative banks.