



The **Methodist Church** Joint Advisory Committee
on the **Ethics of Investment**

This committee is composed of representatives appointed by the CFB and by the Methodist Council. It meets four times a year to advise the CFB on the ethical aspects of its work and monitors its decisions from an ethical standpoint.

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Central Finance Board
of the Methodist Church

The Central Finance Board of the Methodist Church is responsible for managing and investing over £1 billion of Methodist assets. Its challenge is to make good financial returns, whilst acting within the teachings of the Methodist Church. Its mission statement affirms that “we aim to construct investment portfolios which are consistent with the moral stance and teaching of the Christian faith [and] to be a Christian witness in the investment community.”

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The **Methodist Church**



Banking on the Banks

Joint Advisory Committee on the Ethics of Investment 2013

This short report looks at the ethical investment work of the Methodist Church and the Central Finance Board, on banking ethics.

WHAT DOES IT MEAN TO BE AN ETHICAL INVESTOR WHEN BANKS GET IT SO SPECTACULARLY WRONG?



Banking is at the heart of the financial system and an essential part of a modern economy. When banks work as intended, they enable people to save and borrow, and help businesses to invest, channelling money to where it is most needed. However, they have failed to do this in recent years and 2012 saw several banking scandals.

In 2012 **Barclays** was fined a record £290 million for repeatedly distorting financial data used to calculate the London Interbank Offered Rate (LIBOR), the interest rate that banks pay on money they borrow from one another. LIBOR is used as the basis for pricing interest-rate products around the world, and ultimately determines the rate that

is applied to some mortgages, credit cards and business loans. **Barclays'** traders had been manipulating the figure to increase profits on trades, but when the banking crisis broke in 2007, management directed that figures should be under-reported in order to protect **Barclays'** reputation.

Later in the year, the Financial Services Authority found "serious failings" by **Barclays, HSBC, Lloyds Banking Group** and **Royal Bank of Scotland (HBOS)**, as complex financial products – interest-rate swaps – had been inappropriately sold to around 28,000 small and medium sized businesses. The mis-selling left some businesses with huge unexpected costs. This was on top of

the mis-selling of payment protection insurance, endowment mortgages and other products – which by the end of 2012 had cost the banks over £10 billion in compensation.

In addition, **HSBC** was fined a record amount by the US authorities for failing to prevent money laundering, and **Standard Chartered** was fined for non-compliance with the US sanctions policy against Iran.

The banking industry is based on trust, yet it has clearly allowed significant moral failings over recent years. The Parliamentary Commission on Banking Standards, for instance, called the downfall of **HBOS** "a cautionary tale [that] provides a manual of bad banking". How can we

make clear, as investors as well as customers, that our banks require leadership which does put not short-term profit ahead of the needs of their customers? JACEI considered these ethical questions in a paper available on the CFB website.

In January, Justin Welby, Archbishop of Canterbury, said "There are no simple answers to the current crisis in banking, but there are simple principles. They come down to saying that financial services must serve society, and not rule it ... it isn't regulations, but virtue and leadership embedded within corporate cultures, that stops people from stumbling when under pressure."

Responding to the banking crisis

During the year, JACEI has endorsed the engagement by the CFB with the banks involved in recent scandals.

The CFB, as part of a Church Investors Group delegation, met with the senior non-executive director of **Barclays** to express serious concerns about the bank's corporate governance and business culture. This was followed by a meeting with the new chairman, Sir David Walker, to stress the need for cultural and behavioural change to restore trust and ethical probity and a further meeting with company executives to monitor progress.

The CFB engaged with **Standard Chartered** following a \$340 million fine by a New York regulator in respect of 'rogue' transactions that fell foul of US sanctions governance. The bank presented a very full and candid account of the circumstances that led to the fine. JACEI welcomed the clarity and openness with which the bank discussed the issues.

The CFB met with **HSBC** in the light of revelations of money laundering at its Mexican subsidiary which resulted in a \$1.9 billion fine. The bank outlined some of the fundamental changes enacted to prevent similar events being repeated.



Excessive remuneration of bankers has rarely been out of the headlines. JACEI was pleased to note the robust position taken by the CFB in voting against excessive payments. However, in its discussions with banks, the CFB has also focused on the injustice of low pay. It participates in the campaign to encourage companies to become Living Wage employers. The CFB met with **HSBC** and was encouraged by its progress towards compliance. In contrast, it has been disappointed by the response of **Lloyds Banking Group**, which lags behind its peers in resisting adoption of the Living Wage.



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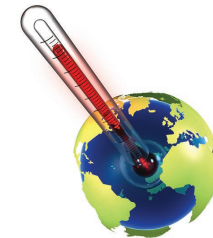
From the chair of the Joint Advisory Committee on the Ethics of Investment (JACEI):

During 2012/2013, JACEI has once again advised the CFB on a wide range of ethical issues. This short report focuses on how we have worked to raise questions around ethical banking standards, but amongst other things we have also:

- developed a position paper and policy on human rights in areas of the world where there is a risk of conflict, and begun to look at how to tackle issues of tax justice, exploring tax avoidance and practices that enable companies that operate profitably in the UK to pay little or no corporation tax
- developed a revised policy statement on alcohol, since approved by the CFB, which reflects changes in the way alcohol is sold and consumed
- reviewed the implications of the UK's climate change targets on power generation and supported moves by CFB to encourage companies to disclose their carbon footprint
- committed significant time talking to **Veolia** and **Alstom** around their involvement in Israel Palestine (the holding in Veolia was disposed of towards the end of the year on investment grounds)
- welcomed the CFB's continued participation in engagement on human trafficking and the resulting progress made by UK hotel groups.

A full report in the agenda of the Methodist Conference is available from www.methodist.org.uk/jacei. Position papers and ethical policies are available from www.cfbmethodistchurch.org.uk/ethics. We very much welcome comments and feedback on the work of JACEI, and I encourage you to contact me if you have questions or concerns about ethical investment.

*The Revd John Howard, Chair,
Joint Advisory Committee on the Ethics of Investment (JACEI)*



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