The ethical banks in Europe during the crisis: information transparency and placement of assets

Leire San-Jose*
ECRI Research Group at University of the Basque Country, Bilbao, Spain
University of Huddersfield, United Kingdom
Email leire.sanjose@ehu.es

Jose Luis Retolaza
Institute of Applied Business Economics (IEAE),
AURKILAN Business Ethics Research Institute, Spain
Email joseluis.retolaza@ehu.es

Dayli Bocanegra
University of the Basque Country, Bilbao, Spain
Email daylibb@gmail.com

Abstract
The financial crisis has increased the importance of the transparency in banking because of the relevance to invest the money of savers and the effect of a risky investment. There are some banks, called Ethical Banks that show in a transparent way the collocation of their money. Then, this research analyses the principal differences between ethical banking and the rest of funding organization: the information transparency and collocation of asset comparing before and during the crisis (2007 vs. 2011 data) and using the European Ethical Banks data. There is an index, RAI (Radical Affinity Index) that integrates this information; therefore, we have used a part of the index, the RAI alpha to show the transparency and placement of assets as the most important factors of ethical banking to resist the negative effect of the actual financial crisis.

Key Words: ethical banking, index, transparency, quality of assets, financial crisis.

JEL Code: D21; G21; M14

*corresponding author
1. Introduction

A new social consciousness and a reformulation of the role of financial intermediation were the origins of various forms of ethical banks in Europe; then, Ethical Banking is offered in response to these dynamics. Thus, ethics in finance and more exhaustively ethics in banking is an interesting and actual topic, a relatively new concept of social economy that its mission lies in financing economic activities that have a positive social impact and distinguished from traditional banking in the social and ethical nature of the projects it finances. Specifically the ethical banks are relevant because of their investment in companies with ethical and positive characters and also because of their transparency way to show their actions to different stakeholders (Cowton 2001; Edery 2006). Moreover, one of the key aspects of differentiation lies in the areas of specialization related to the activity of credit, your financial investment is committed solely on three areas: the social, cultural and environmental.

But few papers have analyzed ethical banks from scientific point of view before financial crisis; but with the crisis the interest in this subject have increased, at least from a theoretical point of view (Alsiná 2002; Baranes 2009; Barbu and Vintilă 2007; Buttle 2008; Cowton 2010; Lynch 1991; Kendric 2004; Cowton & Thompson 1999; San-Jose, Retolaza & Gutierrez-Goiri 2011).

In 2007 the financial entities began to reveal their problems due to their exposure to subprime mortgages and their securitisation, and the present crisis was triggered. This situation, if we classify it in accordance with the economic sphere affected, can be described as a banking crisis. Such crises are characterised by the inability of banks to cover depositors’ applications (Purnanandanan 2010). Banks suspend the internal convertibility of their liabilities due to failures or massive withdrawals of deposits (IMF 1998; 2006). To identify such crises, there are authors who use quantitative indicators such as the percentage of banks’ non-performing loans or the percentage of the GDP that governments devote to bank bail-outs. Other authors apply qualitative criteria and identify these crises with the occurrence of a series of events such as banking panics, failures and mergers of entities, interventions of banks by governments, and so on (Laeven & Levine 2009; Lang & Jagtiani 2010).

In the present case, all these elements have been in evidence, showing that the banking sector has played a prominent role in the gestation and outbreak of the crisis (Azkunaga, San-Jose & Urionabarrenetxea 2013). In general, there are not included the ethical banks among this banking, but it will be necessary, apart of use the logic, to prove scientifically that there are a huge difference between ethical banks during the financial crisis started probably by the
Prospective Innovation at Ethical Banking and Finance

risky activities of the rest of banks; those called as traditional banks. Specifically, in terms of information transparency and placement of assets that are two of the most important factors that differentiated ethical banks from other financial entities.

In this regards, the aim of this paper is to establish the differences between ethical Banks and traditional Banks; and more important establish if there is any different that influence the information transparency and collocation of assets during the actual financial crisis. It has been used the RAI alpha from RAI index (Radical Affinity Index) developed by San-Jose, Retolaza & Gutierrez-Goiri (2011) and it has been used the ethical banks in Europe with the data disposal in 2013 referred to 2011. These banks are members of INAISE (International Association of Investors in the Social Economy) and FEBEA (European Federation of Ethical and Alternative Banks).

This paper contributes in two different ways to the existing literature regarding ethical banks in European banking. First of all, unlike previous studies, our sample includes banking data 2011. Thus, data covers the period of financial banking crisis, which has increased pressures on financial entities to operate more efficiently. Secondly, while previous studies of this type mostly focus on webpage analysis or CSR (Corporate Social Responsibility) in banking (Bravo, Matute & Pina 2012); another important variable the information transparency is shown using the placement of assets as the main factor to estimate the ethical point of view of banks.

The article is organized as follows: Section II establishes the definition and the aspects to demarcate from the traditional banks. Section III reviews the previous literature on the existence of ethical banks into banking in Europe. Section IV explains the Research Hypothesis to establish the basis of argument about the assumption made. Methodology, sample and data used to measure bank information transparency are explained in this section, as well. Thereafter, the empirical analysis results concerning ethical banks transparency and placement of assets are shown in Section V. Finally, Section VI ends with a conclusion and recommendations for further research.

2. Ethical banks: definition and demarcation from traditional banks.

The "Green Bank", also known as social banking, sustainable, or responsible financial alternative, is a type of financial institution that combines the social, cultural and environmental simultaneously with economic returns (San Emeterio & Retolaza 2003).

Ethical banking is a set of financial institutions whose products are not tied exclusively to the criterion of maximum profit and speculation. They invest in real economy, and in some cases even have an