Banking on Shared Value
How Banks Profit by Rethinking Their Purpose

Foreword by Michael E. Porter
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About Shared Value Initiative
The Shared Value Initiative is a global community of leaders who find business opportunities in societal challenges. The Initiative connects practitioners in search of the most effective ways to implement shared value. Operated by FSG with support from a network of funders, the Initiative shapes this emerging field through these activities:

1) Peer to peer exchange: convene global shared value practitioners and stakeholders to support the exchange of ideas and promote best practices
2) Market intelligence: drive a customized research agenda for shared value and deliver actionable practitioner-focused insights at sharedvalue.org
3) Strategy & implementation: manage a global network of trained shared value professional service providers to deploy tailored services and customized training
4) Shared value advocacy: engage idea amplifiers in the corporate, nonprofit, government, media, investor, and academic communities to drive shared value awareness, adoption, and engagement.

Learn more and join the community at www.sharedvalue.org.

About FSG
FSG is a nonprofit consulting firm specializing in strategy, evaluation, and research. Our international teams work across all sectors by partnering with corporations, foundations, school systems, nonprofits, and governments in every region of the globe. Our goal is to help companies and organizations achieve greater social change. Working with many of the world’s leading corporations, nonprofit organizations, and charitable foundations, FSG has completed more than 400 consulting engagements around the world, produced dozens of research reports, published influential articles in Harvard Business Review and Stanford Social Innovation Review, and has been featured in The New York Times, Wall Street Journal, Economist, Financial Times, Business Week, Fast Company, Forbes, and on NPR.

Learn more at www.fsg.org.
About this paper

This paper articulates a new role for banks in society using the lens of shared value. It is intended to help bank leaders, their partners, and industry regulators seize opportunities to create financial value while addressing unmet social and environmental needs at scale. The concepts included here apply across different types of banking, across different bank sizes, and across developed and emerging economies alike, although their implementation will naturally differ based on context.

The authors deeply thank our sponsors National Australia Bank, Itaú Unibanco, and the Inter-American Development Bank. In addition, the authors would like to recognize that this research builds on the significant work that has been done to-date in areas like financial inclusion, impact investing, and sustainable finance and to thank everyone who contributed to this paper directly or through their research. A full list of interviewees and references is included in the Appendix.
### Featured Shared Value Efforts

Additional detail on these banks can be found in the paper, while additional examples of shared value in banking can be found through the Shared Value Initiative at sharedvalue.org.

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<td><strong>Banco de Credito e Inversiones</strong></td>
<td>Financing thousands of Chilean entrepreneurs and growing profitability of the bank's entrepreneur-focused lending and investment portfolio by 25x</td>
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<tr>
<td><strong>Bank of America Merrill Lynch</strong></td>
<td>Growing business in pay-for-success investments to meet demand from private investors, in partnership with state governments and nonprofits</td>
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<td><strong>Barclays</strong></td>
<td>Developing products and services to serve financially excluded customers to grow the bank's retail and corporate businesses</td>
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<td><strong>Bendigo Bank</strong></td>
<td>Partnering with communities to share the value of banking, growing $24 billion in business, $1 billion in revenue, and community prosperity</td>
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<td><strong>Citigroup</strong></td>
<td>Making capital available for millions of micro-borrowers while building a new global business line and growing business with corporate clients</td>
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<td><strong>Credit Suisse</strong></td>
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<td><strong>Dhaka Bank</strong></td>
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<tr>
<td><strong>Goldman Sachs</strong></td>
<td>Deploying over $40 billion of capital to facilitate the growth of clean energy globally while establishing the leading clean tech and renewable energy franchise</td>
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<td><strong>ING</strong></td>
<td>Meeting Europe's large environmental finance need and actively supporting the growth of the continent’s renewable energy sector</td>
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<td><strong>Itau Unibanco</strong></td>
<td>Leveraging financial education to grow retail business alongside client prosperity and offer a differentiated service to corporate clients in Brazil</td>
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<td><strong>JPMorgan Chase</strong></td>
<td>Playing a leading role in growing the impact investing market, serving both issuer and investor clients to develop opportunities for institutional investors</td>
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<td><strong>National Australia Bank</strong></td>
<td>Aligning customer prosperity with bank success, resulting in significant market share growth and improved financial performance in Australia</td>
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<tr>
<td><strong>Rabobank</strong></td>
<td>Establishing a $78 billion business in agriculture finance by investing in deep research and developing innovative, holistic value chain solutions</td>
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<tr>
<td><strong>Standard Bank</strong></td>
<td>Boosting SME lending to $1 billion in key African markets by investing in product innovation to maintain profitability and risk targets</td>
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<tr>
<td><strong>Vancity</strong></td>
<td>Investing in the local agriculture and food industry to boost regional economic growth in a sustainable way, delivering returns to the community and credit union</td>
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The past decade has been disastrous for the banking industry. Emerging from a period of multi-trillion dollar write-offs, multi-billion dollar fines, and even threats of criminal charges, the industry needs a new approach. It can no longer focus on short-term return optimization to benefit an increasingly small, elite segment of the global population. It can no longer rely on generating revenue by using opaque fee structures or engaging in risky financial engineering. If it does, we can already foresee the ramifications: increasingly complex and restrictive regulation and growing suspicion from customers who, empowered by technology and the host of options that it creates, are increasingly finding ways to work around banks altogether.

Banks must choose a new path. They need to recognize that the health of their businesses is inextricably linked to the long-term prosperity of their clients and communities and to sustained local and global economic growth. They have to turn their tremendous capability for innovation to financing consumer, social, and environmental solutions that benefit society while increasingly representing good investment opportunities for private capital. Doing so is the only way to preserve their legitimacy and their competitiveness.

This new path centers on creating shared value—addressing relevant societal problems with a business model generating measurable returns. With over $100 trillion in assets,1 banks are essential to enable each individual to achieve his or her ambitions, to foster every spark of innovation, and to grow every industry and community. The potential to create shared value through retail, commercial and investment banking is enormous. And the banks that realize this potential will grow faster and recast their role in society through a lens of mutual opportunity: an opportunity for banks to increase long-term profitability, and an opportunity for society to leverage the unique financial capabilities of banks to drive progress.

Importantly, shared value must be approached through the lens of business strategy, not as a matter of public relations. It is a decision to move away from peripheral engagement with society through isolated corporate philanthropy, CSR, or sustainability programs. It is an opportunity for banks to capture business value by enabling and financing societal solutions. This shift, however, will require a new paradigm that enables banks to leverage the tremendous potential inherent in their businesses to address the global consumer, business and community challenges we face today.

We have written this paper to help banks navigate this paradigm shift—to improve the understanding not just of what banks should do but also how banks can embed shared value within their day-to-day operations. This paper builds on our article “Creating Shared Value” in Harvard Business Review, as well as the excellent thinking that has been done by many others on financial inclusion, impact investing, and sustainable finance. We hope that the concepts and examples highlighted here will generate a broad sector discussion, banking process innovation, and the collaboration with stakeholders needed to take these hugely impactful approaches to scale through the core business of banks.
Executive Summary

In the wake of the financial crisis, the relationship between banks and society has grown increasingly combative. Yet two crucial points have been obscured: banks are essential to solving today's most pressing challenges and addressing those challenges is critical to the growth and success of banks. Areas such as affordable housing, alternative energy, and agricultural development have long been the domain of the public sector, but there is growing recognition that private capital is essential to meeting the scale of the needs in these areas. Simultaneously, these needs are increasingly seen as profitable, “bankable” market opportunities. The value of global business opportunities in social and environmental markets is projected to be upwards of $3 trillion annually by 2050; the estimated financing gap for small and medium-sized business (SMEs) totals $2.1 trillion; and 2.5 billion people around the world still need access to quality banking services. Many of banks’ largest clients—from institutional investors to corporations—are demanding offerings that cater to these new markets.

These markets thus represent opportunities for banks to create shared value—to grow profits and regain their standing in society by creating social and environmental value. Shared value opportunities for banks exist at three levels:

- **Furthering client prosperity** by improving the financial health of individual and business clients and extending banking services to the financially excluded
- **Fueling the growth of regional economies** by moving beyond individual transactions to proactively finance and strengthen entire ecosystems of players within an industry or community
- **Financing solutions to global challenges** by working with socially or environmentally beneficial client segments and by structuring, placing, and/or investing in impact investments

Yet banks are leaving much of this value on the table. Instead of serving this growing market with products and services, banks have instead invested in CSR and philanthropy programs. At too many banks, shared value opportunities have been ignored, considered unprofitable or sub-scale.

A few leading banks, however, have embraced a new paradigm. These banks are emerging from a dark corner of crisis, scandal, regulatory fines, and public mistrust to rediscover their true purpose to advance economies and society. They are making shared value a critical part of their core business strategies and maintaining an edge in the face of growing competition, client demand, and regulation. The banks that have achieved this have overcome three common challenges:

- They bypass the prevalent trade-off mentality between social good and business success by proactively pursuing profits from purpose—by identifying links between core business performance and societal needs and developing intentional and smart business strategies to pursue them
- They avoid the trap of low return expectations by innovating for ROI—finding the internal space and ability to create new products and services that generate competitive returns from social and environmental markets
- They realize long-term growth by making markets—working proactively to grow and strengthen supply and demand conditions, often leveraging corporate philanthropy in new ways and working in close collaboration with external partners, including NGOs

Drawing on the experiences and insights of leading practitioners from the banking industry, this paper highlights opportunities for banks to create shared value and demonstrates how banks can capitalize on those opportunities by leveraging their unique expertise and resources while flexing in new ways that will be essential to their success in the 21st century.
Demand for bank products and services that meet social and environmental needs is rapidly increasing. Around the world and across sectors, there is growing recognition that many of these needs represent large markets that can be addressed with business solutions and financing. The annual value of global business opportunities in health, education, and sustainable natural resources, for example, is projected to be upwards of $3 trillion by 2050, the estimated financing gap for small and medium-sized businesses (SMEs) in emerging markets totals $2.1 trillion, and 2.5 billion people around the world still need access to quality banking services.

Banks’ biggest clients are increasingly looking for financial products and investment opportunities in these areas. Corporate clients in sectors from pharmaceuticals to food/beverage and retail are seeking strategic partners to provide financing solutions for their supply chains or distribution networks in emerging markets. Others, such as renewable energy companies, are growing quickly and looking for banks that understand the dynamics of their non-traditional sectors. Wealth management clients are also moving in this direction. Surveys find that nearly half of investors are seeking investment portfolios that deliver more than just a financial return—a figure that rises to two-thirds for younger generations. These trends are significant for banks. They represent not only material business potential, but also an opportunity for banks to regain their standing in society in the wake of the financial crisis.

Yet most banks are leaving value on the table. Instead of serving this growing market through their core businesses, banks have largely responded to social and environmental needs with philanthropy, corporate responsibility programs, or environmental, social, and governance (ESG) screening. These efforts are often too small or peripheral to deliver meaningful business or societal value.

A new approach is needed—one in which banks are built to create shared value (see box below), capturing and growing profits by creating social or environmental value. This approach defines a new role for banks in society, moving beyond traditional models of corporate philanthropy and CSR to engage banks’ financial capability, access to capital, core products and services, scale, and history of innovation to advance social progress, all while simultaneously enhancing their own competitiveness.

### Defining shared value in banking

Companies create shared value when they generate measurable business returns by addressing social and environmental challenges. Since publication of the 2011 *Harvard Business Review* article “Creating Shared Value” by Professor Michael Porter and FSG co-founder Mark Kramer, shared value has gained traction in a number of industries, including healthcare, technology, extractives, and consumer goods.

Shared value is rooted in a company’s strategy and competitive positioning in three ways: reconceiving products and markets, redefining productivity in the value chain, and creating enabling framework conditions. All three are highly relevant for banks:

- **Reconceiving products and markets.** Banks create shared value by extending their reach to new markets, finding new ways to improve the financial health of their clients, and developing new products and services that support social and environmental progress. The next section describes these new types of products and markets in more detail, while later sections of this paper explain how banks can embed these opportunities in their work.

- **Redefining productivity in the value chain.** Reconfiguring a bank’s internal operations and processes is essential to innovating around new financial products, business models, and/or delivery mechanisms that meet bank hurdle rates while effectively meeting social needs. Later sections of this paper describe the innovation models and skills that will be required for banks to do so.

- **Creating an enabling environment.** Proactively growing markets and strengthening key players and institutions in the market ecosystem are essential for banks to move beyond small-scale projects to pursue shared value markets profitably and at scale. Later sections of this paper provide examples of how to make and grow the markets that are relevant to shared value in banking.

Achieving shared value at scale requires banks to work across all three of these mutually reinforcing areas. Examples of banks that have done this can be found throughout this paper.
While many banks are only beginning to experiment with shared value opportunities, non-bank actors have started to capitalize on them at scale. Interestingly, non-financial companies such as Vodafone are moving into financial services—its M-PESA mobile banking platform now has more than 17 million active users in Africa and is rapidly expanding. Other global giants such as Walmart, Facebook, and Google are also exploring options to deliver financial services through their networks. Impact investing firms—dedicated to investments that provide social and environmental benefits and a financial return—are on the rise. These firms, like responsAbility Investments AG and IGNIA, now collectively manage nearly $25 billion in assets. Even nonprofit microfinance institutions (MFIs) are converting into competitive, commercial banks. Equity Bank, for example, became a commercial bank less than 10 years ago, but it already holds 50 percent of the Kenyan retail banking market share.

Simultaneously, policymakers are increasingly mandating that banks change. Regulations such as the Community Reinvestment Act (CRA) in the United States and Priority Sector Lending in India that mandating that banks change. Regulations such as the Community Reinvestment Act (CRA) in the United States and Priority Sector Lending in India that require banks to be responsive to the needs of lower income customers and communities are expanding in scope. Moreover, there is growing momentum around consumer protection regulation in both the United States and Europe. But instead of proactively finding strategic value in these areas, banks have largely been reactive—and their efforts to “check the box” on regulatory requirements have served neither regulatory goals nor banks’ bottom lines.

To capture the promise of these new opportunities, to maintain a leading edge in the face of growing competition, and to preserve their freedom to operate in an increasingly complex regulatory environment, banks must embrace shared value. Yet most banks consistently fail to recognize and act on shared value opportunities. They remain entrenched in current products and processes, focused on individual transactions and short-term returns, and distanced from broader efforts to align finance with social and environmental goals. In doing so, they fail to fully capture new markets and business opportunities while remaining on the defensive about their value to society.

Banks of all types—from retail banks with a local footprint in Ghana to investment banks with global portfolios headquartered in New York—face three myths that act as barriers to creating shared value (see box below).

While these substantial and deeply rooted mental models cannot be overlooked, they are holding too many banks back. This paper draws on the insights of the global and regional banks that are proving these myths false, and the social and environmental organizations that are their partners, to better understand how banks can build on their unique expertise and resources to pursue shared value.

### Three myths that act as barriers to creating shared value

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- **A profit vs. purpose trade-off mentality**: Most banks deal with social and environmental considerations only through a corporate foundation, CSR, or sustainability department. Moreover, many banks (and members of the public at large) believe that profiting from social good is somehow wrong. This deliberate isolation of profits from purpose restricts banks’ ability to recognize and capitalize on shared value opportunities, which exist at the intersection of profits and purpose.

- **Low ROI expectations**: Even when the opportunities are clear, banks fail to pursue them. Too often, banks evaluate the potential return on investment (ROI) of shared value efforts based on existing business models instead of thinking creatively about new solutions. As a result, they overestimate costs and risks while underestimating potential returns. Retail banks, for example, focus on the high costs of reaching underserved markets, commercial banks only see the risks associated with SME lending, and investment banks anticipate little return from broad participation in emerging social and environmental investment opportunities. Presuming a low ROI, banks do not reconfigure internal processes or redefine their value chains to enable shared value innovation.

- **Insufficient scale**: An important part of the ROI calculation is the scale of the opportunity, and many shared value markets seem too small to justify large-scale bank engagement. Banks focus on the lack of deal flow in nascent markets, such as pay-for-success investments and energy efficiency financing. Opportunities in impact investing or increasing access to finance appear subscale, and regulatory and compliance restrictions seem insurmountable. Banks too often fail to pursue shared value opportunities because they look at the immediate market for their specific products rather than the potential market. As a result, banks ignore a key approach to expand shared value opportunities—creating an enabling environment.
Banks can create shared value by reconceiving products and markets at the client, regional, and global level. Many of these opportunities are well understood; indeed, there has been significant momentum and growth in areas such as access to finance and impact investing. What is missing, however, is a clear understanding of which areas are ready for mainstream bank activity, how these opportunities connect to one another, and how banks can develop viable business models to grow their presence in these markets profitably.

While each of the opportunities described here will have different relevance for banks depending on their respective business lines and geographic footprints, this section provides a framework for understanding the areas in which banks can simultaneously build business in new or existing markets and offer powerful mechanisms for addressing social and environmental issues. In this section, we will explore these three opportunities in further detail before delving into how banks have pursued them.

### Three areas of shared value opportunity

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<th>Fueling the Growth of Regional Economies</th>
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<td>Most relevant for retail and commercial banking</td>
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<td>Supporting the long-term financial health of existing clients</td>
<td>Growing local economies by banking industry clusters or supply chains</td>
<td>Banking client segments that deliver social or environmental benefits</td>
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<td>Extending banking services to financially excluded individuals or SMEs</td>
<td>Revitalizing depressed economies by financing sustainable community growth</td>
<td>Serving impact investing markets to finance solutions to critical social and environmental needs</td>
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SNAPSHOT

FURTHERING CLIENT PROSPERITY TO REACH NEW MARKETS AND GROW ACCOUNTS

Most relevant for: Retail and commercial banking

What’s different: Addressing client prosperity through core bank processes and customer relationships, rather than through CSR programs

Major barriers:
- Lack of cost-effective delivery channels for customers in remote areas and/or with small account sizes
- Inability to accurately assess credit risk outside of traditional models that require collateral and documentation
- Insufficient understanding of customer needs

Furthering client prosperity

The core business of retail and commercial banks is to preserve capital and make it available for individuals and businesses. Banks rely on customers who make deposits and take out loans and who increase their accounts and their use of the bank’s financial services over time. Yet significant value is left on the table when banks fail to effectively serve and expand their customer base. Banks can capture this value in two ways: by supporting the financial health of existing clients and by extending banking services to under-banked individuals and SMEs.

Supporting the financial health of existing clients

While much has been written about extending access to new clients, the needs of existing clients have fallen by the wayside. Yet banks have tremendous opportunity to strengthen their own businesses by supporting the long-term financial health of existing clients. The breakdown of this link between the financial health of banks and that of their customers was one of the key drivers of the 2008 U.S. financial crisis, which resulted in devastating financial hardship for customers, communities, and the banks themselves. Distributing mortgages to customers with insufficient efforts to build their financial health forced banks to foreclose on nearly four million mortgages between 2008 and 2012. The fees that have been levied on banks for this irresponsible behavior have totaled nearly $100 billion. Banks have a clear incentive to avoid this type of outcome again. And while banks have long run philanthropic programs focused on financial capability, they rarely make them a business priority. By strengthening the financial health of their existing clients through their core business activities, banks not only save by avoiding defaults and foreclosures, but they also actively grow their businesses. As healthy customers expand the size of their accounts and their use of products and services, banks prosper.

National Australia Bank (NAB), one of the four largest banks in Australia, responded to the financial crisis in exactly this way. The bank instituted a new bank-wide strategy in 2009, seeking competitive advantage by offering a fairer proposition to its customers. Alongside several other initiatives, the bank created NAB Care, a program to provide financial hardship advisory and loan repayment options for struggling customers. Different from so many CSR-driven financial education programs, NAB Care operates through the core business and is fully integrated with NAB’s collections department. However, it also introduces a new approach to typical operations: NAB’s head of collections engaged a mental health nonprofit organization called Life Line to train all NAB Care employees to recognize and manage financial hardship among customers. 

The bank also changed its employee performance evaluations to incentivize and reward staff for proactively managing its customers’ financial health. As of 2013, NAB Care had helped over 100,000 vulnerable customers, resulting in a 20 percent reduction in loan defaults. NAB Care has been so successful that 40 percent of the bank’s clients voluntarily seek advice before a collections event, saving NAB $7.2 million in costs.

“Most bankers approach a problem by saying ‘I have a mousetrap, how can I sell more?’ versus ‘The customer has a pain point; how can I build a business to solve that problem?’ There’s been a huge paradigm shift in healthcare from treating sickness to promoting wellness. Banks should think of themselves as being in the financial health business.”

Jennifer Tescher, President & CEO, Center for Financial Services Innovation
Brazilian bank Itaú Unibanco, one of the ten largest banks in the world, is also generating business growth by investing in the financial health of its customers. The bank has pursued financial health on a large scale by providing a comprehensive financial education program to 80,000 of its own employees and to thousands more by offering the program to employees of its corporate clients. Those clients have cited the financial literacy program as a key differentiator for what is normally a commoditized service. Importantly, the bank invested in developing an effective program, adapted over years of working with its own employees, and embedded the program into the core business, training branch and account managers. Early results are promising—from 2010 to 2012, customers that went through the program grew their savings by 56 percent and their retirement accounts by 37 percent. By aligning its core business with the prosperity of its customers, Itaú Unibanco is strengthening its retail business.

**Extending banking services to individuals and SMEs**

Beyond existing customers, retail banks have a significant business opportunity to extend banking services to unbanked and under-banked populations. Approximately 59 percent of adults in emerging economies and 11 percent in high-income economies still lack access to formal back accounts. Most banks struggle to develop viable business models to reach these customers, as small account sizes and low customer volume in remote areas lead to low profitability. Others work in the informal economy with little documentation or collateral. Particularly in emerging markets, however, building a customer base by reaching unbanked populations is critical to competitiveness.

Barclays, a global bank with retail presence in Africa, recognizes this need. To grow its market share and develop a new customer base, Barclays experiments with new ways to reach unbanked populations. Working with NGOs Care International UK and Plan UK, the Banking on Change program leverages the expertise of each partner to provide people with the skills needed to effectively manage money and provides access to basic financial services. Barclays is developing products that provide informal village saving and loan associations (VSLAs) with formal bank accounts. By aggregating individual savings into group savings accounts, the bank is able to reduce the costs of serving a customer segment where low average balances make transaction costs prohibitive.

“The way that mobile companies are leveraging technology to enter the market—that’s a real threat to the business models of traditional banks. Not only does this represent massive business opportunity, but there isn’t an alternative. Banking is changing, and if we don’t think about how to serve these markets, then the market will find a solution that doesn’t involve banks.”

Mark Thain, Vice President of Social Innovation, Barclays

In addition, the bank is developing mobile technology and digitized records to better understand and serve the needs of this segment. Since 2009, Barclays has provided savings accounts and financial education to 513,000 previously unbanked individuals who live on less than $2 per day; it plans to open 5,000 group accounts by 2015.

Beyond banking for individuals, SME banking holds significant opportunity for banks. SMEs are a growing market segment and form the backbone of many economies; they account for roughly two-thirds of private sector employment and more than 60 percent of GDP in most countries. Some banks recognize this segment as a large driver of growth—Standard Chartered, for example, anticipates a global SME lending business of $30 billion by 2018. Yet too often, SMEs lack access to financing or struggle with loan repayment because bank products are not tailored to their unique needs. For banks, this segment not only represents the current $2.1 trillion market for small business financing, but could also hold the large corporate relationships of tomorrow.

Banco de Crédito e Inversiones (BCI), one of Chile’s largest banks, has also been a leading innovator in this space. In 2007, the bank launched Nace, a $35 million fund to provide financing to entrepreneurs. To effectively serve these new clients, who often lacked a credit history and a proven business model, BCI created new credit assessment criteria that focused on an entrepreneur’s level of commitment and perseverance, as well as business plan quality. The new credit scoring allows BCI to maintain the same default rate as its standard commercial banking business. Over the last six years, BCI has grown profits from Nace 25-fold while distributing $71.1 million in credit to 7,500 entrepreneurs, two thirds of whom otherwise had no access to credit.
SNAPSHOT

FUELING THE GROWTH OF REGIONAL ECONOMIES TO EXPAND DEMAND FOR SERVICES

Most relevant for: Commercial and corporate banking
What's different: Developing strategies to grow supply chains and/or local economies beyond individual clients or transactions
Major barriers:
- Inability to move beyond individual clients and transactions
- Lack of local relationships beyond existing clients
- Longer time horizon for returns

Fueling the growth of regional economies

The success of banks largely depends on the economic strengths of the communities where they (and their clients) operate. A more prosperous community means more and healthier business clients. Thus creating shared value at a regional level provides a powerful opportunity for banks to fuel economic growth—a rising tide that lifts all boats. While banks have historically played an essential role in economic growth through their core operations, they tend to do so one business at a time. This focus on the needs of discrete business clients creates a blind spot—banks all too often miss the broader regional or industry dynamics that affect the success of all their clients. By moving beyond individual transactions to financing and strengthening entire ecosystems of players within an industry or community, banks can boost regional economic growth as well as their own business.

Banking industry clusters and supply chains

Global development actors know well the importance of industry cluster and supply chain financing to large-scale economic development, and some leading banks are starting to catch on. In such industry-based economies, cash flow challenges and limited access to capital for any one actor can create a bottleneck for the whole cluster. As a result, addressing that one need can unlock exponential growth.

Vancity, a credit union based in Vancouver with branches across southwestern British Columbia, intentionally builds its business around market clusters that exhibit substantial community engagement and growth potential. One such market is the local and organic food industry, which generates local employment opportunities while improving personal and environmental health in the region. To serve this growing market, Vancity engages in what it refers to as “impact lending and investing,” creating specialized solutions for the sector that help businesses navigate a path to success by connecting them to business expertise, partnerships, and learning opportunities alongside financing that can include microcredit, cash-flow or growth financing based on the needs of each client. The credit union also works proactively to strengthen the local foods ecosystem, catalyzing supply and demand, strengthening cross-sector networks of key actors to boost regional economic growth and its own business in this segment. As a testament to the effectiveness of this approach, farmers’ markets—one element of the local foods ecosystem that Vancity focuses on—have grown by more than 147 percent during the last six years and now constitute a $160 million industry in British Columbia, supporting many new farm and processing businesses.

Likewise, Dhaka Bank Limited has created shared value by restructuring its commercial banking in rural areas of Bangladesh. Faced with a Central Bank mandate to maintain rural branches despite their lack of profitability, the team at Dhaka Bank looked for alternative solutions. The bank recognized that rural communities were actually teeming with business activity—farmers and manufacturers, merchants and traders, and small-scale shipping companies—but none of the businesses were bank clients. In the town of Belkuchi, for example, the vast majority of the population was engaged along the value system to create lungis, traditional men’s garments. By analyzing the financial dynamics of the cluster, Dhaka Bank was able to develop a set of “off-the-shelf” financing products customized to the needs of the businesses in the industry: agricultural loans timed to the local growing seasons for farmers, capital equipment loans for weavers, and working
“No bankers wanted to go [to Belkuchi] with their dress shoes on those muddy dirt roads. But we did—and four years later, the roads are paved and there are four more banks operating downtown. And we grew our customer base from 5 business clients to 1,800 in just five years.”

Nasar Hassan Khan, formerly Head of SME Unit, Dhaka Bank

capital for traders. And by working with actors all along the supply chain, Dhaka Bank strengthened the entire local industry. This approach has enabled Dhaka Bank to turn its rural branches around by attracting new customers. In Belkuchi alone, the bank’s commercial customer base grew from five clients to 1,800 over the course of five years, and several dozen graduated to larger, commercial banking products. As the bank has extended this approach to other clusters, its rural branches have become increasingly profitable, catalyzing valuable economic growth in these poorer regions and earning significant annual returns for the bank’s SME financing portfolio.28

For global banks, cluster and supply chain financing can represent a powerful means of supporting the success of their largest corporate clients. Many corporations are increasingly looking to create shared value themselves by enhancing the productivity of suppliers or developing innovative new delivery channels. To do so, they require bankers that understand and can finance these complex, multifaceted efforts. For example, Citigroup subsidiary Banamex works closely with client PepsiCo to fortify its supply chain in Mexico by coordinating microloans to smallholder sunflower farmers.29 Similarly, Barclays coordinates financing for improvements across the local supply chain for one of their multi-national clients in Ghana, that is looking to increase local sourcing of ingredients from 10 to 70 percent.30 In both cases, banks are able to deepen relationships with existing clients and grow their book of business by supporting local industry growth in developing regions.

Financing community growth

In addition to strengthening industry supply chains and clusters, banks can also find business opportunities in revitalizing local economies. Bendigo Bank is a prime example of this. In 1998, in response to thousands of branch closings in rural areas by large banks across Australia, Bendigo Bank partnered with local communities to create a new model—the Community Bank. Through this model, Bendigo supports self-selecting communities to run their own branches as franchisees, leveraging the bank’s infrastructure and expertise. The branches not only provide community members with financial services, but they also reinvest a portion of their revenue into communities to drive long-term growth. To select locations for Community Bank branches, Bendigo applies a unique set of investment criteria, assessing sustainability and growth potential by looking at community initiative, self-organization, community interest in collective advancement, and community preparedness to support a local branch with their own money and business. The model has been highly successful for Bendigo. Today, the bank has nearly one million customers in 300 community-led branches across Australia (30 percent of which are in areas without any other form of banking). These branches have generated $23.8 billion in business and $1 billion in revenue, reinvested $110 million in communities, and posted average growth rates of 18 percent over the past five years.31

Global banks, too, can play an important role in revitalizing communities. Goldman Sachs (GS), for instance, supports development in underserved communities oftentimes through clusters of mutually reinforcing real estate investments, particularly in New York and New Jersey, where many employees and clients are based. For example, its Urban Investments Group (UIG), which has committed $3.5 billion of GS capital since 2001, has invested over $370 million of GS and client capital across a range of public-private partnerships in Newark, where poverty, unemployment, and educational achievement rates are among the worst in the nation. By simultaneously financing affordable housing, schools, community wellness facilities, and healthy food markets in the same Newark neighborhood, Goldman Sachs is catalyzing the physical, social, and economic revitalization of the area, while also targeting a risk-adjusted financial return on each individual investment.32
Capital is an essential ingredient for any industry, and the social and environmental space is no different. From providing high-quality early education to scaling renewable energy technologies, large-scale solutions to global challenges require significant investment. While this has historically been the domain of public or philanthropic funds, financial institutions are becoming more engaged, driven by large market opportunities and growing demand from clients. As the results of the 2014 Social Progress Index show, there is a vast need for impact investment to serve issues like water and sanitation (over 100 countries lack universal access to piped water) and electricity (over 70 countries lack universal access to electricity). Banks are engaging in these and other opportunities in two ways: through work with client segments and by structuring, placing and/or investing in impact investments.

**Serving Impact investing markets**

Meanwhile, most investment banks are experimenting with **impact investing**. Expected to constitute five to ten percent of individual and institutional portfolios in the next decade, impact investing represents a demonstrated, viable business model. Some banks, such as **UBS**, are investing in and placing third-party funds, in response to demand from wealth management clients. Others have structured their own funds, including **TD Bank** and **Deutsche Bank**. Deutsche Bank’s microfinance investment funds have distributed $1.67 billion to 3.8 million micro-borrowers since 1997.

Leading banks are particularly intentional about growing impact investing opportunities in new areas. **Bank of America Merrill Lynch**, for example, recently issued a $500 million green bond and a $13.5 billion...
pay-for-success investment (or “social impact bond”) for an adolescent recidivism program in New York. Both are notable for their integration with the core business of the bank. The green bond was the first of its kind aimed at funding renewable energy and energy efficiency projects for corporate clients.\textsuperscript{40} “Sure, SIBs are small, sporadic, and success is yet to be determined. But overwhelmingly the trend is of great interest for states and our clients. \textit{The momentum is there—we just need to find ways to build a robust pipeline.}”

Surya Kolluri, Managing Director, Bank of America Merrill Lynch

Meanwhile, the pay-for-success investment was the first to be placed with private investors and features a low level of accompanying subsidy. The Rockefeller Foundation provided a credit guarantee for just ten percent of the bond, much less than other similar investments. In both instances, the bank is working toward a sustainable, scalable business model for these types of investments—a model driven by client revenue rather than philanthropic subsidy. Both of these investments attracted large institutional investors such as Blackrock, TIAA-CREF, and the California State Teachers’ Retirement System—a sign of success, since Bank of America Merrill Lynch made expanding its investor base an explicit goal of these efforts. While these new financial products require additional effort, Bank of America is building its capabilities in a market that has enormous potential for growth, social impact, and increased returns for the business.\textsuperscript{41} Indeed, the other leader in pay-for-success investments, Goldman Sachs, recently announced a $250 million fund that will allow investors to participate in its social impact portfolio.\textsuperscript{42}

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These three levels—client, regional, and global—represent the array of opportunities in which banks can reconceive products and markets to simultaneously create value for society and themselves. The banks highlighted in this section have found innovative and effective ways of doing so, whether by expanding financial access and health, financing economic development, or engaging in social and environmental finance. Moreover, for every bank featured in this section, we know that there are many others following a similar path. Too often, however, these types of efforts remain isolated, sub-scale, or motivated solely by regulations. Too many banks are leaving tremendous value on the table by not engaging with society in more strategic ways and by continuing to let deeply rooted myths, introduced in the prior section, prevent them from pursuing shared value. In the next section, we will explore the ways leading shared value banks have overcome these outdated myths and already begun to innovate to achieve shared value at scale.
A New Paradigm for Banks

Shared value is a strategic imperative for banks. It has the power to transform their engagement with society, enabling them to move beyond small-scale philanthropic programs or one-off investments to contributions that match the scale and ambition of their businesses. But leveraging the full power of shared value requires a profound shift from the usual way that banks operate.

The evolution of the healthcare industry provides an interesting analogue. For decades, pharmaceutical and medical technology companies failed to engage meaningfully on issues of global health. These companies made in-kind donations worth billions of dollars each year, but resisted any attempts to develop market-based solutions to improve access to their life-saving products. They argued that the realities of their business—high R&D investment costs, for example—prevented them from meeting the needs of billions of underserved patients around the world. Over the past ten years, however, the picture has changed. Emerging markets are now expected to constitute 75 percent of the industry's growth over the next decade and companies like Novo Nordisk and Novartis have evolved to see commercial opportunity in these markets. They are making product and delivery channel innovation a strategic priority in economies like China, India, and Nigeria.

Despite the many promising examples highlighted in the prior section, a similar shift has not happened systematically in the banking industry. Several banks, however, are demonstrating the way forward by incorporating shared value into their core businesses. Rather than viewing profits and purpose as mutually exclusive, they understand the link between business growth for the bank and broader societal well-being and pursue profits in purpose. These banks make space for shared value innovation, prototyping new approaches and scaling what works to innovate for ROI. And they look outside of their own walls, working proactively to make markets to create more supportive environments for their investments. The examples that follow detail how banks have made these shifts and embraced a new paradigm.

Pursuing profits in purpose

Understanding the link between profits and purpose can drive the ability for banks to reconceive products and markets by generating new business and deepening banks' relationships with existing customers. But banks must go beyond current thinking on “double bottom line” investing. Shared value is not simply about minimizing societal harm or touting the value of day-to-day bank operations. Nor is it about one-off investments or projects. Instead, leading shared value banks do two things: they recognize where global trends in areas like climate change, food security, and youth unemployment create business opportunities; and they create intentional, proactive, and business-driven strategies to serve these new markets. The impetus for these efforts can begin in a wide range of places within the bank—from the core business, the CSR or sustainability group, or the CEO directly.

Recognize shared value in the core business

At large, global banks, this commitment to recognizing profits in purpose is most often led by a senior champion within the business. Driven by demand from clients or opportunities to gain market share, these business leaders take a more holistic view of what a bank can do to address the social needs or constraints linked to business opportunities. Then, they innovate around existing barriers and advocate for internal support and resources to scale their efforts.

For example, in 2005, as part of a comprehensive Environmental Policy Framework, Goldman Sachs made a commitment to invest $1 billion in renewable energy. Over the next four years, however, the firm actually deployed $13 billion in capital across its various investing and banking businesses. In 2010, a new dedicated business unit was created to advise, finance, and invest in clean tech companies globally—the Clean Tech and Renewables Group. The new group was formed based on recognition of the huge emerging market opportunity in meeting global energy demand in a cleaner, more sustainable way as well as the firm's desire to better serve a
A growing number of clients in the space. Since the group’s formation, Goldman Sachs has deployed nearly $30 billion in capital, backing what are now some of the most successful clean technology companies in the world. Despite volatile market dynamics in the sector during this period, the firm is taking a long-term perspective, targeting another $40 billion of capital towards clean energy in the coming decade. The group’s business transactions are complemented by long-term innovative investments through the Goldman Sachs Center for Environmental Markets, which partners with academic institutions, NGOs and corporations on research and pilot projects that address barriers to the deployment of renewable energy in segments of the market with low penetration, such as low-income, multi-family housing in developed countries and more broadly in developing countries.44

“Emerging markets are inherently volatile and clean energy markets are no exception. But we know that the fundamental need to meet growing energy demands more sustainably provides a large growing market opportunity. And as a firm, we take a long-term view toward value creation.”

Kyung-Ah Park, Managing Director, Goldman Sachs

Recognize shared value in strategic CSR efforts
Interestingly, shared value initiatives can also spring from a corporate foundation or CSR or sustainability group. These teams are often charged solely with distributing philanthropic capital, but with the right mandate, they are well suited to support shared value within the core bank. Citigroup’s work in microfinance, for example, started in the Citi Foundation with grants to microfinance institutions (MFIs). As the sector grew in size and sophistication, Citigroup recognized that its MFI beneficiaries had the same needs as many of its global clients—capital markets solutions, foreign currency hedging, and transaction services. Understanding these needs led Citi to realize that these MFIs were more than beneficiaries: They were potential clients. This recognition of the link between a social need and the core banking business spurred the establishment of Citi Microfinance, a business unit that now has 150 commercial clients across 50 countries, including a partnership with OPIC which to-date has provided $381 million in financing to 42 MFIs in 22 countries, reaching over one million microcredit customers.45

Articulate a bank-wide vision
While both Goldman Sachs and Citi have effectively created specific areas of shared value activity within their diversified portfolios, some banks pursue a bank-wide shared value agenda to reinvigorate the business and differentiate themselves from competitors. Often led by the CEO, this approach is the most effective way to generate bank-wide shared value innovation. The broad mandate and leadership support create the internal space, resources, and commitment necessary for shared value to move beyond the drive of an individual champion and become institutionalized across bank divisions.

Articulating a bank-wide vision is often easier for smaller, regional banks and credit unions. For example, many of the 25 members of the Global Alliance for Banking on Values (GABV) have created banking models driven by purpose. This includes the aforementioned Vancity, whose purpose it is to serve as a catalyst for the self-reliance and economic well-being of the community or the Clean Energy Development Bank, which seeks to ensure its investments promote self-reliance and sustainable economic growth.46 But even large, national banks have been able to articulate ambitious visions.

In 2009, National Australia Bank (NAB) CEO Cameron Clyne faced negative market dynamics and stiff competition from industry peers. In response, Clyne led an effort to reinvent the bank’s strategy to deliver “fair value” for customers and the community. The first step was to remove a host of “unfair” fees in NAB’s retail banking operations—a decision that cost NAB nearly $300 million in lost revenue in the short term. Yet the campaign to align customer value with bank value was successful. NAB attracted one million new customers, representing more than five percent of Australia’s 18 million adult residents and recovered its financial position in far less time than projected.47 The targeted removal of fees was just the start of a broader cultural and operational shift within the bank. Each business unit was charged with seeking new opportunities to drive social and environmental value while building the bank’s long-term competitiveness. Resources were dedicated to pilot efforts in a range of shared value areas. These
“Our purpose to do the right thing has driven our ‘Fair Value’ strategy, creating value for our customers, employees, and shareholders over the past five years. We know our purpose is not a barrier to profit, but instead can be a source of profit and we are constantly looking for ways to innovate our business accordingly.”

Gavin Slater, Group Executive Personal Banking, National Australia Bank

ranged from growing market share among underserved indigenous populations to reducing loan defaults of existing customers by addressing mental health issues and experimenting with new environmental finance options.\textsuperscript{48}

Regardless of its origins within a bank, the shift from a “profit vs. purpose” trade-off mentality to a strategic and business-driven commitment to pursue profits from purpose is essential for banks to meaningfully create shared value.

\textbf{Innovating to unlock ROI}

A shift in mindset is an important first step, but it alone is not sufficient to pursue shared value. In reality, the banking industry faces more challenges to implementing shared value because of its technical and highly regulated nature, which hinders banks’ ability to redefine productivity in the value chain. Some banks, however, have challenged the status quo and found ways to create new products and services that generate returns from shared value markets. These efforts demonstrate four success factors: creating space for smart incubation, collaborating across bank divisions, leveraging external partnerships, and being intentional about learning and adaptation.

\textbf{Incubate with business and compliance realities in mind}

“These types of investments will never make it through our product approval and compliance processes.” This common response to shared value may be true, but what bankers often ignore is their power to engage functional groups to jointly create shared value solutions that make it past internal compliance hurdles. Consider Bank of America Merrill Lynch’s private wealth management group, which recently pursued a pay-for-success investment offering to meet growing demand from wealth management clients. It was clear from the outset, however, that the typical product approval process would not work for something that had never been tried at the bank before. Instead of presenting the final product to the product approval committee as they normally would have, the team met with the committee four times, using each meeting as an opportunity to build internal understanding of pay-for-success investments and ensuring that the committee’s concerns were addressed in the final deal. Once the investment was ready for launch, the team had the full support of the bank’s leadership and easily gained approval from the committee. This engagement has also set the stage for future product innovation collaboration.\textsuperscript{49}

To institutionalize this intra-bank collaboration, an independent central structure can support broad-based innovation beyond individual initiatives. Such structures can act as a central resource across business lines, helping to identify and incubate shared value innovations. Barclays’ $40 million Social Innovation Facility (SIF) serves exactly this purpose. The group is governed by a committee of senior executives from across the bank’s business units and markets; its goal is to develop a portfolio of new financial products and banking relationships that will deliver social and financial value. As a central hub for all business divisions, the SIF helps to surface shared value ideas, co-funds pilot projects with bank divisions, and provides the advice, support, and networks needed to scale successful efforts.\textsuperscript{50}

\textbf{Break out of bank division silos}

Whether through the core business or a central group, driving innovation to increase returns and reduce risks and costs is essential to pursuing shared value. Existing products and services are rarely designed to both meet social, economic, or environmental goals and deliver competitive rates of return. Leading banks leverage their deep expertise in product and service development to create new products that can meet all of these goals, working across bank divisions to unlock these innovations.

Consider Dhaka Bank’s work in cluster SME financing described earlier. The bank struggled to reach SMEs that were too small for the bank’s commercial
offerings but had business needs that retail products could not address. To capture the market, Dhaka Bank brought together its commercial and retail capabilities to create a series of “off-the-shelf” SME financing solutions, including a half dozen unique products designed for the specific needs of each local cluster. Because these commercial financing solutions were standardized for each regional value chain, they could be distributed through the bank’s existing retail network, dramatically cutting the costs of serving this market.\textsuperscript{51}

Investment banks also find value in working across bank divisions. Similar to \textit{Citigroup} and \textit{Barclays}, Netherlands-based \textit{Rabobank} strengthened its competitive positioning with large corporate clients by innovating to serve a population that most global banks ignore: smallholder farmers. The bank came to this solution after recognizing a critical market failure in the agricultural commodities market. Specifically, the largest trading companies in the world were consistently struggling to secure a reliable supply of commodities like coffee and cocoa because small agricultural businesses in Africa, Asia, and Latin America lacked access to essential working capital. Many trading companies had started to offer their own makeshift financing solutions, eager to mitigate the threat to their businesses and stepping in where banks had left a void.

Recognizing an opportunity, Rabobank developed an innovative approach. Through its corporate foundation, the bank established the Rabobank Rural Fund to offer financing to small agricultural businesses and cooperatives of smallholder farmers. To reduce risks associated with these investments, the bank aligned the Fund’s investments with purchasing orders from its corporate clients. By working seamlessly across the corporate foundation and the core business, Rabobank grew its corporate banking business and its footprint in emerging markets with local agricultural businesses, all the while keeping risk levels low by working across the supply chain with farmers and corporate buyers. Rabobank is now the world’s largest provider of agricultural finance, with a growing portfolio of nearly $78 billion in lending to the primary agricultural sector.\textsuperscript{52,53}

\textbf{Leverage complementary partner capabilities}

Even when working across bank divisions, there are still times when banks are limited in their ability to innovate for shared value, either because of internal constraints or because no viable business model exists. In these situations, banks benefit from leveraging the capabilities of partners throughout the product design process. In recent years, a number of partners with strong financial expertise and ability have grown to support private sector engagement. These organizations include \textit{Social Finance}, which has played a critical role in structuring many U.S.-based pay-for-success investments,\textsuperscript{54} and \textit{EFL}, which developed a psychometric credit scoring tool that enables banks to increase lending to SMEs while preserving default rates.\textsuperscript{55} Barclays, for example, faced challenges working within the constraints of its London-based product approval process to innovate for low-income customers in African markets, where local market insights and the ability to test and learn through rapid iterations is key. So the bank created a partnership with the \textit{Grameen Foundation}, working with their team in Uganda that focuses on prototyping, testing, and scaling mobile finance solutions.\textsuperscript{56}

Partnership is equally valuable for new types of financing, which present outsized risks for investment banks. To leverage private capital and grow the impact investment space, a number of leading foundations and multilateral organizations—including the \textit{IFC, OPIC}, the \textit{Bloomberg Foundation}, and the \textit{Bill & Melinda Gates Foundation}—have provided credit guarantees that subsidize private investment in areas that fail to clear internal bank hurdle rates.\textsuperscript{57} With support from partners, these markets become worth exploring for banks—and their wealth management clients.

\textbf{Test, learn, and scale what works}

A critical part of strategic innovation is not just piloting, but subsequent learning and adjusting. This...
is one of the most important, and most frequently neglected, differences between a CSR program and a shared value investment. Shared value investments should be measured, tested, and refined with the same rigor as other commercial investments until they meet internal hurdle rates.

Take Standard Bank, for example. The South Africa-based bank understood the potential of the SME market in Africa and projected that it could grow its SME loan portfolio to $1 billion. However, to do so, the bank needed to understand how it could serve these previously unbanked, informal businesses cost-effectively and without exceeding its target default rates. So the bank worked with EFL to pilot psychometric analysis as a way to assess creditworthiness. Simultaneously, Standard Bank carefully monitored the resulting loan amounts and default rates. As soon as default rates began to climb, the bank added complementary efforts, including training their SME loan officers to do physical reviews of market stalls to determine business viability.  

The upside for banks is that implementing proven shared value efforts leverages what banks do best. After an initial innovation and incubation period, banks can institutionalize shared value initiatives through familiar mechanisms. They can train core staff to recognize and implement shared value efforts. National Australia Bank, for example, expands the NAB Care program through regular training for collections employees. Bank of America Merrill Lynch uses an internal Internet platform, in-office trainings, and events for top advisors to ensure that wealth managers understand the social finance opportunities that they can offer to interested clients. Others create dedicated specialist groups that serve shared value client segments, such as Citi Microfinance, Royal Bank of Canada’s not-for-profit group, and Standard Bank’s corps of 400 SME account managers.  

Overcoming internal barriers, however, can only take banks so far. Many shared value markets are too immature for large-scale bank engagement. To address this roadblock, shared value leaders are taking proactive steps to grow and strengthen these markets.

External barriers, such as markets that lack the proper infrastructure or sufficient deal flow, can seem daunting, and thus too many banks see these challenges as prohibitive. They choose a “wait and see” approach rather than seeing opportunity in creating an enabling environment. Leading shared value banks however do not simply accept these realities and move on to other spaces. Instead, they work proactively to grow and strengthen markets, often leveraging corporate philanthropy in new ways and working in close collaboration with external partners. Banks need to address three areas to create enabling environments for shared value: supply and demand, the ecosystem of actors, and relevant policy.

Stimulate supply and demand
Banks’ concerns about nascent markets are often valid, particularly in areas such as social impact bonds (SIBs), where only four deals have been successfully completed to date. In these spaces, banks must help build supply and demand to increase profitability. While frontier markets can become a domain of competitive advantage for the banks that navigate them well, scale and long-term profitability can only be achieved through coordinated efforts to make the market.

Bank of America Merrill Lynch, for example, is building the domestic pay-for-success investment (or “social impact bond”) market by working with partners, such as Social Finance and the Harvard Kennedy School SIB Technical Assistance Lab, to structure deals and facilitate greater understanding of these transactions. In fact, the bank recently published a guide to structuring pay-for-success transactions that it made public, recognizing that industry-wide growth is needed to create a viable market. The bank has also taken proactive steps to generate deal flow, sponsoring a conference for state teams focused on improving early childhood education outcomes designed to spur SIB requests from state governments.

JPMorgan Chase is taking similar steps to proactively grow the impact investing market. Through its Social Finance unit, the bank invests in, structures and
places impact investments with its clients. Interestingly, the bank has invested heavily in research and partnerships to generate both deal flow and client demand. On the supply-side, JPMorgan Chase recently partnered with The Nature Conservancy to launch NatureVest, an investment platform that aims to attract the $1 billion in financing for global conservation efforts by sourcing and executing investable projects and leveraging private capital to complement public and philanthropic capital. JPMorgan Chase is also active on the demand-side, publishing research that is essential to attracting more impact investors. Their annual impact investor survey conducted in partnership with the Global Impact Investing Network (GIIN), for example, highlights growth in the sector, investor satisfaction with financial performance from impact investments, and emerging opportunities in the space.

Build a healthy market ecosystem
In more mature markets, such as microfinance, a healthy ecosystem of actors is essential to enable banks to actively engage at scale and in a cost-effective way. Banks can play a key role in building these markets, leveraging their unique capabilities to strengthen other actors in the ecosystem that enable bank activity. Citigroup, for example, has a history of working with a diverse set of organizations in microfinance, contributing to the sector’s tremendous growth over the last 20 years. Through the Citi Foundation, it has long supported research efforts and industry organizations such as the Center for Financial Inclusion (CFI) and the Consultative Group to Assist the Poor (CGAP) that work to build the field. Bob Annibale, Citi’s Head of Community Development and Microfinance, sits on the CGAP Board, as well as the board of the Microfinance Information Exchange amongst other organizations. Citi also invests significantly—$10.5 million in 2013 alone—to build MFIs’ financial capacity to grow their readiness for scalable, commercial solutions that will enable them to reach more low-income clients.

Credit Suisse has focused on linking the top with the base of the economic pyramid for over a decade, building the capacity of intermediaries like financial inclusion networks to enable increased investment in microfinance through in-house and third-party funds. With growing demand from clients for impact investment opportunities, Credit Suisse recognized a critical need to grow the absorption capacity of the microfinance sector. In response, the bank developed deep relationships with select microfinance networks, including Accion, FINCA International, and Women’s World Banking, and social investment firms like responsAbility, which were well-positioned to help grow the microfinance industry and facilitate commercial microfinance investments. Interestingly, Credit Suisse brings both its private and investment bank and CSR teams to these partnerships: The CSR team builds the capacity of intermediaries through targeted grants and employee expertise sharing, while the private and investment banks co-innovate with commercial and non-profit partners on product offerings and capital markets transactions. Some of their most recent product innovations include a microfinance private equity fund in Asia and several local currency microfinance notes, which shift foreign exchange risk from MFIs to investors. By developing the capabilities of intermediaries in the microfinance ecosystem, Credit Suisse has been able to substantially grow its investment activities. The bank currently has more than 4,000 private and institutional clients investing in microfinance and over $2.4 billion in assets-under-management.

“We are seeing demand for more and different products from investors. So we’re looking at opportunities beyond financial inclusion in healthcare, housing, and education across structured notes, equity, bonds, [and] funds. Ideally, in a few years, we will have products for all of these with different risk/return/impact features. But as a large financial institution, we don’t necessarily have all of the expertise required for BoP [base of the pyramid] investments. That’s why we have built up strategic relationships with select NGOs and social businesses that have a presence on the ground like FINCA and Accion.”

Patrick Elmer, Head of Philanthropy and Responsible Investments, Credit Suisse
INNOVATING FOR

In 2013, FSG published “Innovating for Shared Value” in Harvard Business Review. The article reflected findings from a study of 30 leading shared value companies like Dow Chemical, Nestlé, Vodafone, and Novartis and identified five mutually reinforcing capabilities for innovation. Along with the fundamental paradigm shifts described in this section, the application of these innovation capabilities to banks provides additional guidance for their implementation of shared value.

Embedding a social purpose
Establishing a clear link between profit and a specific social purpose is an essential first step to create shared value. This purpose must be voiced internally and externally, and embedded into core processes like budgeting and strategic planning.

- The purpose-driven strategy is central to Vancouver-based Vancity. After the global financial crisis, reflecting on the core purpose of banking led Vancity to a new vision: to “redefine wealth” to include the financial, social, and environmental well-being of the communities in which it operates. Since the vision was established in 2008, Vancity has explored new impact markets, from sustainable local agriculture to affordable housing. The credit union’s ‘top-of-house’ metrics measure the amount of impact loans issued and member well-being, in addition to other outcomes. Vancity has seen significant growth in members, assets and earnings with this approach.

- Larger banks embed social purpose within each business, to ensure ownership and alignment with commercial priorities, and/or establish a shared value business unit to coordinate and drive efforts across the bank. At Goldman Sachs, for example, the mandate for their Environmental Markets Group is to work across the firm to further markets that address critical environmental issues. It does so by working with bankers on environmental risk management and strategic initiatives to further capital in clean energy, water infrastructure, and green bonds amongst other opportunities.

Defining the social need
Once shared value opportunities are identified, banks must develop a deep understanding of how social needs and business value are linked in order to create viable business solutions.

- For banks working with individual clients, knowledge of the target population is critical. National Australia Bank, for example, conducts deep research to understand the needs of underserved customer segments. The ability of the bank’s Indigenous Finance department to understand the specific needs of indigenous populations, for example, led to the incorporation of Native Title law into training for account managers. This training allowed them to better advise the growing number of customers who were receiving large land purchase offers from mining companies. NAB’s investment in knowledge building has delivered significant indigenous business to the bank.

- For commercial banks working at the economy level, knowledge of local business contexts and value chains is essential. Dhaka Bank’s account managers, for example, traversed Bangladesh, meeting with local entrepreneurs for tea and a lesson on regional economies. These local conversations provided the knowledge needed to create cost-effective cluster financing products.

- For banks working on social and environmental challenges, understanding the issue is critical to developing effective financing solutions. Rabobank, for example, has built the world’s largest agriculture finance business augmented by the expertise of its 80-person food and agribusiness research team. As a result of its dedicated efforts, 20 percent of Rabobank’s $596 billion private sector loan portfolio is in the food and agribusiness sector.

Measuring shared value
The next step is for banks to incorporate this link between social need and business value in their measurement systems. Importantly, measurement must occur throughout the life cycle of an opportunity: at the beginning to estimate the business and social value, in the middle to track progress, and at the end to assess the shared value produced.
Standard Bank, for example, used detailed measurement as a critical foundation for its work in SME financing. At the outset, the bank estimated that SMEs at African traders’ markets could be a $1 billion business—a significant opportunity. The bank then developed a deep understanding of the finance challenges these businesses faced—access to bank branches, collateral requirements, and complicated forms, for example. To address these challenges, the bank created a new service to meet clients at their market stalls, staffed with account managers trained to assess credit worthiness in non-traditional ways. Importantly, the bank consistently tracked portfolio performance in terms of loan uptake, default rates, graduation to larger loan sizes, and cross-sales of other bank products, thereby tracking how key business indicators reacted to new innovations to meet the social need. 78

While this type of measurement is more familiar for retail and commercial banks, it will be increasingly important for investment banks engaging in impact markets. Significant work is being done to develop common social and environmental metrics through the Global Impact Investing Network (GIIN). Measurement will only become more important with the growth of the pay-for-success space, where financial return is contingent on social outcomes.

Co-creating with external stakeholders

At implementation, partners can be a critical complement to core bank operations. Leading banks go beyond stakeholder engagement and collaborate closely with multi-sector partners to co-create and deliver innovative products and services.

Enlisting relevant external stakeholders helps banks make markets for shared value opportunities and reduce the cost and risk associated with new efforts. JPMorgan Chase’s involvement in NatureVest, for example, is effective because it engages cross-sector actors aligned around a common goal of increasing conservation financing. 79

In the product design and delivery phases, leveraging others’ capabilities can be essential to reach new customers profitably. As one of Ethiopia’s fastest growing banks, NIB Bank, for example, works with the IFC and TechnoServe to provide financing to 62 coffee cooperatives, representing 45,000 smallholder farmers. While NIB and the IFC provide loans, TechnoServe provides technical assistance in operations, strategy, and governance to build the cooperatives’ financial stability and readying them for commercial bank loans. 80

Creating the optimal innovation structure

Finally, shared value initiatives need to be scaled, but an initiative’s “readiness” to be integrated into the core business depends on its maturity. Banks can consider several options to structure shared value innovation.

When a bank lacks the expertise or flexibility to innovate internally, financing external entrepreneurs is a viable alternative. Barclays, for example, partnered with the Grameen Foundation to gain insights into low-income African markets, which had been difficult for Barclays to penetrate alone. The bank leveraged Grameen’s mobile platform, digitization technology, and iterative product design process to test and scale mobile finance solutions in Uganda. 81

Where a bank identifies a shared value opportunity without a clearly viable business model, obtaining philanthropic support or government subsidy may help ease the transition into a new market. A decade-long partnership with OPIC, for example, has enabled Citigroup to profitably enter new markets worldwide. Over ten years, OPIC has provided $2.8 billion in guarantee capacity on Citi-originated loans in emerging markets. 82

To incubate a new shared value opportunity, creating a semiautonomous unit helps the innovation meet hurdle rates and limits the risks posed to the core business. Bendigo Bank’s Community Bank model, for example, was incubated apart from the core business for the first five years of operations. This allowed Bendigo to launch pilots, adapt the model and, as early performance exceeded expectations, expand the model gradually. 83

Mature shared value initiatives with a strong business case should be integrated within the core business. Environmental finance markets, for example, are often more closely aligned with typical bank business and so can be served through a dedicated industry group—such as ING’s Sustainable Lending practice.
Collaboration is essential to making all of this possible. Partnering among banks, as well as between banks and non-bank stakeholders, is fundamental to creating an ecosystem that enables banks to engage in these markets. While banks have historically deprioritized collaboration, it has been the key to unlocking shared value in related industries. The micro-insurance market, for example, was born through close collaboration between insurance companies, re-insurers, governments, and alternative distribution channels (e.g., retailers, mobile phone providers). These partnerships have enabled the industry to grow dramatically—33 of the 50 largest global insurance companies now offer micro-insurance and the sector covers half a billion risks, up from 135 million in 2009.

Little by little, the banking industry is beginning to adopt a new approach. Industry organizations are looking for ways to support more bank collaboration. The Center for Financial Services Innovation (CFSI), for example, hosts a number of platforms for peer learning, including the Innovators Roundtable and the Underbanked Solutions Exchange, to bring together stakeholders from across the financial services industry to generate new ideas, test new products and strategies, and share best practices. Banks themselves are beginning to see the value of working together. Recently, a consortium of investment banks—Bank of America Merrill Lynch, Citigroup, JPMorgan Chase, Goldman Sachs, Morgan Stanley, and Deutsche Bank—partnered to develop the Green Bond Principles to prevent green-washing and protect the integrity of the banks’ growing book of business in green bonds.

Engage policymakers
In all financial markets regulation is often the elephant in the room, and it can be critical to either supporting or inhibiting shared value. The recent financial crisis has exacerbated this reality. Today, both banks and industry regulators are highly cautious when considering new investment vehicles. For Dhaka Bank, requirements to retain unprofitable rural branches provided the spark to discover their cluster financing opportunity. Some U.S.-based banks are also finding opportunity in meeting Community Reinvestment Act (CRA) requirements concerning urban investments. However, Know Your Customer (KYC) and Basel III requirements exemplify how regulation can stifle a bank’s ability to take risks with new customers or investments. KYC, for instance, makes it difficult for retail and commercial banks to pursue financial inclusion strategies that target product lines and services to the unbanked by requiring the collection of customer data that is often difficult or expensive to gather. Similarly, Basel III regulation, which increases the capital requirements for banks, can inhibit innovation and deter banks from investing in new opportunities that offer unproven returns.

Banks cannot simply remain reactive to regulation. Instead, they can engage policymakers to improve market viability while ensuring that regulatory objectives are met—not just for industry regulations, but also for regulations that govern shared value markets. Consider how Dutch bank ING responded to the European Union’s recent policy directive that 20 percent of Europe’s energy must be derived from renewable sources by 2020. While ING saw this as a huge opportunity for the bank to finance renewable projects and support its clients, it also recognized the need to engage others to manage such a vast undertaking effectively. In the Netherlands, for example, ING collaborated with other banks, project developers, and Dutch regulators to collectively develop the Energie Akkoord, a set of guidelines for energy projects, policies, subsidies, and financing mechanisms to support the financing of enough deals to meet the 2020 goals.

While the approach described here—seeing profits in purpose, innovating in new ways, and engaging with cross-sector partners to make markets—will seem foreign at first, much of it builds on what banks already do to capitalize on other markets. The difference with shared value is that banks need to bring a lens of business strategy—not CSR—to social markets, leveraging their immense capability for innovation and market making to engage in these areas profitably and at scale.

“We are working together with other banks, project developers, and the government. It’s not an option to only work within ING—you need to work with others. We work together to meet energy targets because it’s too big for one bank to do on its own.”

Ann Aukes, Director of Structured Finance Utilities, Power and Renewables, ING
The Path Forward

Banking should focus inherently on creating shared value—capturing profits while enabling individuals, institutions, and sectors to prosper. However, especially in the wake of the financial crisis, banks have been under fire from all fronts. While the industry continues to struggle economically, society's growing suspicion of banks' intentions is resulting in tighter and more complex regulations. Banks have responded with CSR initiatives and public relations campaigns, but the world remains unconvinced: Finance and banking are among the least trusted sectors in the entire economy. And public dialogue, instead of recognizing the tremendous societal value that banks can generate, is increasingly focused on reconfiguring or by-passing the industry.

The industry is at a crossroads. Banks can choose to continue focusing on maximizing short-term returns while remaining permanently reactive to public scrutiny and regulation that often stifles innovation. They can continue to use philanthropy and government-mandated investments to fund programs disconnected from any strategic intent. And they can remain on the sidelines, ignoring the vast opportunity inherent in addressing social and environmental needs, leaving business value on the table.

Or, banks can embark on a new, actionable, shared value approach. They can transform their role within society by designing financial products and services to address social and environmental needs, deepening existing business and capturing new lines of business in areas that are currently considered "unbankable." They can get ahead of the game, helping existing corporate clients to grow in emerging economies and attracting the next generation of investors and employees, who are increasingly interested in putting their time and energy toward efforts that have a social or environmental purpose. And they can collaborate with a network of trusted partners and regulators to build knowledge, stimulate activity, and catalyze financial innovation and growth in these new markets.

The bank that does all of these things at scale does not exist yet. Many banks are experimenting with individual shared value initiatives, but putting shared value at the center of a bank's strategy will require a new paradigm. The bank of the future will fully capture these opportunities by discovering profits in purpose, innovating to increase ROI, and proactively building markets. This transformation will require shifts in mindset and practice that seem uncomfortable today, but will be worth the effort. The banks highlighted in this paper are already making progress, demonstrating how shared value can deliver both social and business returns.

The time is ripe, therefore, to redefine the industry's role in society—for banks to demonstrate that they are at the heart of what is required to build strong, healthy, and sustainable economies. The reasons for doing this could not be more compelling: The banking industry is essential to solving today's most pressing challenges, and addressing these challenges is vital to banks' future business.
APPENDIX A

List of Interviewees

This paper draws on the experiences and insights of leaders and experts from banks and nonprofit organizations. The individuals listed below were generous enough to share their time in interviews conducted between December 2013 and June 2014.

Leroy Abrahams
Executive Vice President, Regions Bank

Matt Camp
President, Initiative for a Competitive Inner City (ICIC)

Tim Hasset
Director of Sustainable Finance, World Wildlife Fund

Jamie Alderslade
Director of Communications, Policy and Research, Citigroup

Damian Chester
Head of NAB Care, National Australia Bank

William Haworth
Chief Strategist, Financial Institutions Group, International Finance Corporation

Margaret Anadu
Managing Director, Urban Investment Group, Goldman Sachs

Tyler Clark
Global Director of Financial Advisory Services, Root Capital

Nidhi Hegde
Senior Consultant, Monitor Inclusive Markets

Bob Annibale
Global Director of Community Development and Microfinance, Citigroup

Lauren Moser Counts
Director of Strategy, Capital Impact Partners (formerly at Enclude)

Laura Hemrika
Senior Consultant, Monitor Inclusive Markets

Anne Aukes
Director of Structured Finance Utilities, Power, and Renewables, ING

Atiyah Curmally
Environmetal Specialist, International Finance Corporation

Denise Hills
Head of Sustainability, Itaú Unibanco

Amy Bell
Head of Principal Investments, Social Finance, JPMorgan Chase

Philippe Depoorter
Secretary General, Bank of Luxembourg

Jane Hughes
Director of Knowledge Management, Social Finance

Paula Benson
General Manager for Corporate Responsibility, National Australia Bank

Chris Dobrzanski
Chief Economist, Vancity

Karin Jestin
Head of Philanthropy, Lombard Odier

Ellen Bogers
Senior Investment Manager, Rabobank Rural Fund, Rabobank

Tilman Ehrbeck
CEO, Consultative Group to Assist the Poor (CGAP)

Nasar Hassan Khan
Head of Underwriting, BRAC Bank Limited (formerly at Dhaka Bank)

Amit Bouri
Managing Director, Global Impact Investing Network

Patrick Elmer
Head of Philanthropy and Responsible Investments, Credit Suisse

Harvey Koh
Associate Partner, Monitor Inclusive Markets

Glen Brennan
Head of Indigenous Finance & Development, National Australia Bank

John Fullerton
Founder and President, Capital Institute

Surya Kolluri
Managing Director, Bank of America Merrill Lynch

Sara Gilbertson
Director, Business & Industry, World Wildlife Fund
APPENDIX B

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