Problems Associated with ESG and Sustainable Banking: A Case Study of Twenty-three U.S. Banks

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Abstract

In the past decade, banks and investment institutions have started to consider the social and environmental consequences of their investments. By adopting Environmental, Social, and Governance (ESG) Performance Standards—voluntary frameworks that identify, avoid, manage, and mitigate a firm’s environmental and social risks and impacts—the financial services industry hopes to communicate their socially responsible business practices. By doing so, they seek to gain positive financial and strategic benefits including but not limited to increased competitive advantage, a stronger financial valuation, and better positioning to manage and mitigate risk. But even as banks commit to ESG performance standards like the Equator Principles (EPs), several have contradicted their commitments. Consider Wells Fargo, Citigroup, and TD Bank which are signatories of the EPs but in the meantime, have also loaned money to construct the Dakota Access Pipeline (DAPL); not only does constructing the DAPL raise issues regarding the violation of indigenous peoples’ rights, but also there is concern for the pipeline’s potential impact on climate change and the contamination of Native American drinking water and land. This study first investigates the sustainable banking performance of 23 insured US-chartered commercial banks using an integral scoring system. And second, this study attempts to examine the challenges resulting from the commitments to ESG standards in the lending and investments decisions through document analysis.