Reciprocity and Values in Social Banking

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Plan

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1. Definition

❑ Common Principles (Benedikter, 2011; San José et al., 2011; Weber and Remer, 2011; Bechetti et al., 2012)

▪ Provision of financial services in an efficient, inclusive and sober manner => traditional financial intermediation, reliance on the production of soft information (idiosyncratic knowledge on borrowers)

▪ Awareness of non-economic consequences (double bottom-line) => funding of social, economically viable projects

▪ Transparency of financial operations and transactions

1. Definition

❑ **Common Principles** (Benedikter, 2011; San José et al., 2011; Weber and Remer, 2011; Bechetti et al., 2012)

▪ Profits equally and limitedly distributed among all stakeholders

=> coop status or commercial status with arrangements to limit power concentration.

▪ Involvement of shareholders and savers in decision-making process
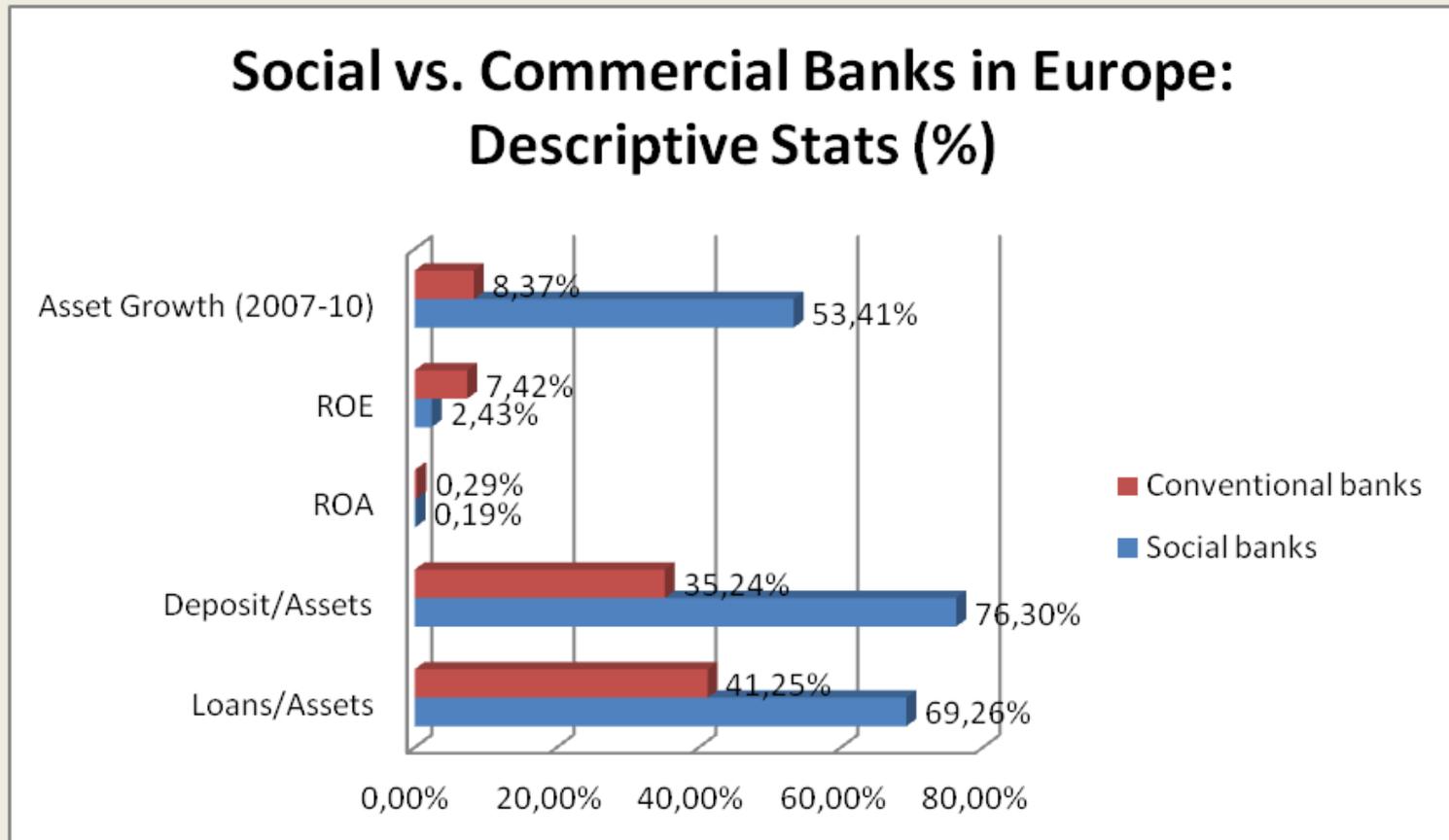
2. Some Figures from Europe

❑ Trends in Europe

- Social banks = Total assets about € 21 billion (FEBEA)

- Huge upward trend in customers since the 1980's

- 53.41% growth rate between 2007 and 2010 compared to 8.37% for mainstream banking

- Examples:

  - Triodios (NL & BEL)
  - Banca Etica (ITA)
  - GLS (GER)

  - Merkur (DEN)
  - La Nef (FR)

❑ Trends in Europe (Continued)

Social vs. Commercial Banks in Europe: Descriptive Stats (%)

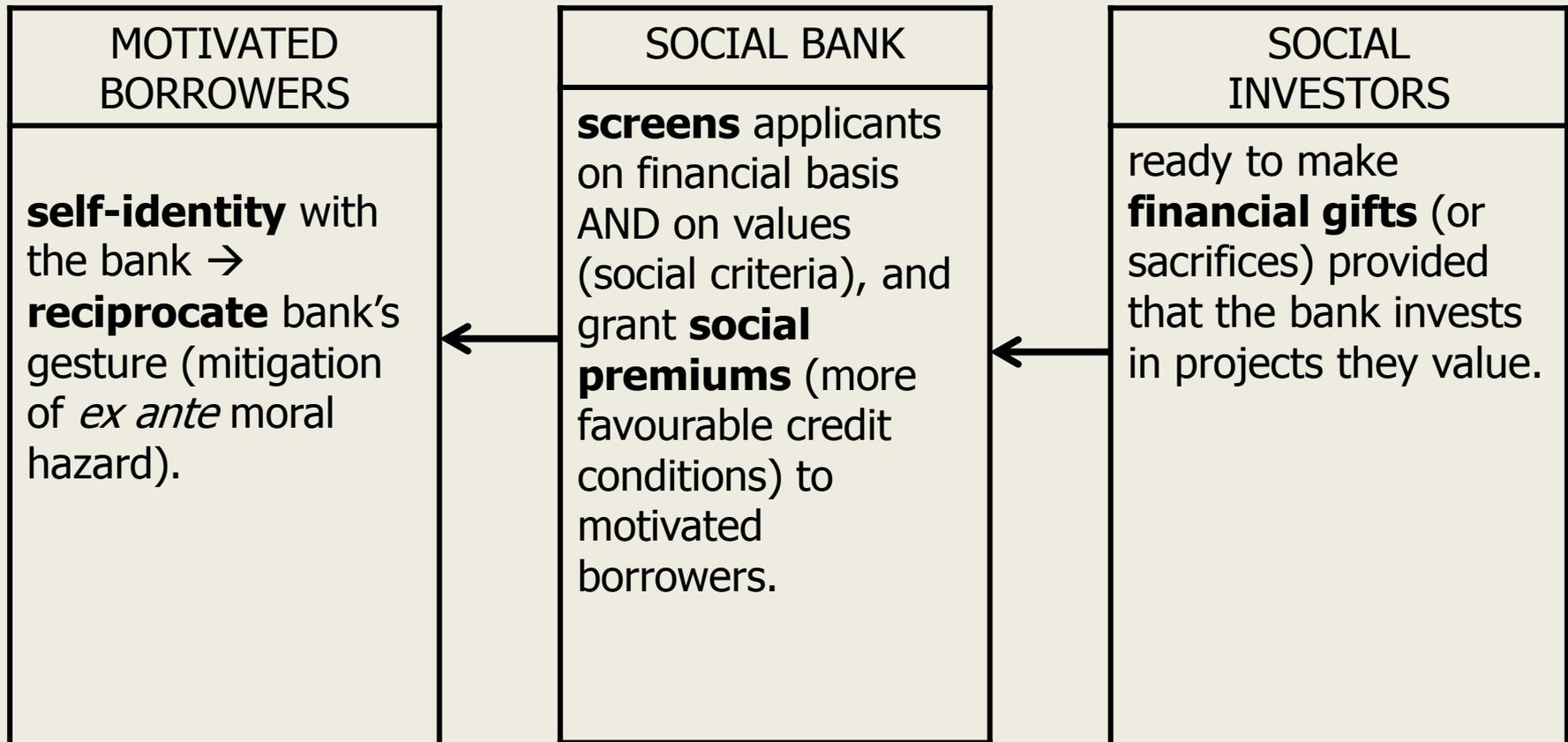|	Conventional banks	Social banks
Asset Growth (2007-10)	8,37%	53,41%
ROE	7,42%	2,43%
ROA	0,29%	0,19%
Deposit/Assets	35,24%	76,30%
Loans/Assets	41,25%	69,26%

Global Alliance for Banking on Values (2012), own calculations

3. Reciprocity and Values in Social Banking

❑ Conceptual framework

| MOTIVATED BORROWERS	SOCIAL BANK	SOCIAL INVESTORS
self-identity with the bank → **reciprocate** bank's gesture (mitigation of *ex ante* moral hazard).	**screens** applicants on financial basis AND on values (social criteria), and grant **social premiums** (more favourable credit conditions) to motivated borrowers.	ready to make **financial gifts** (or sacrifices) provided that the bank invests in projects they value.

4. Behavioural Evidence from the Lab

❑ **Cost of credit** [Graph data from Cornée, Masclet, and Thenet (2012)]
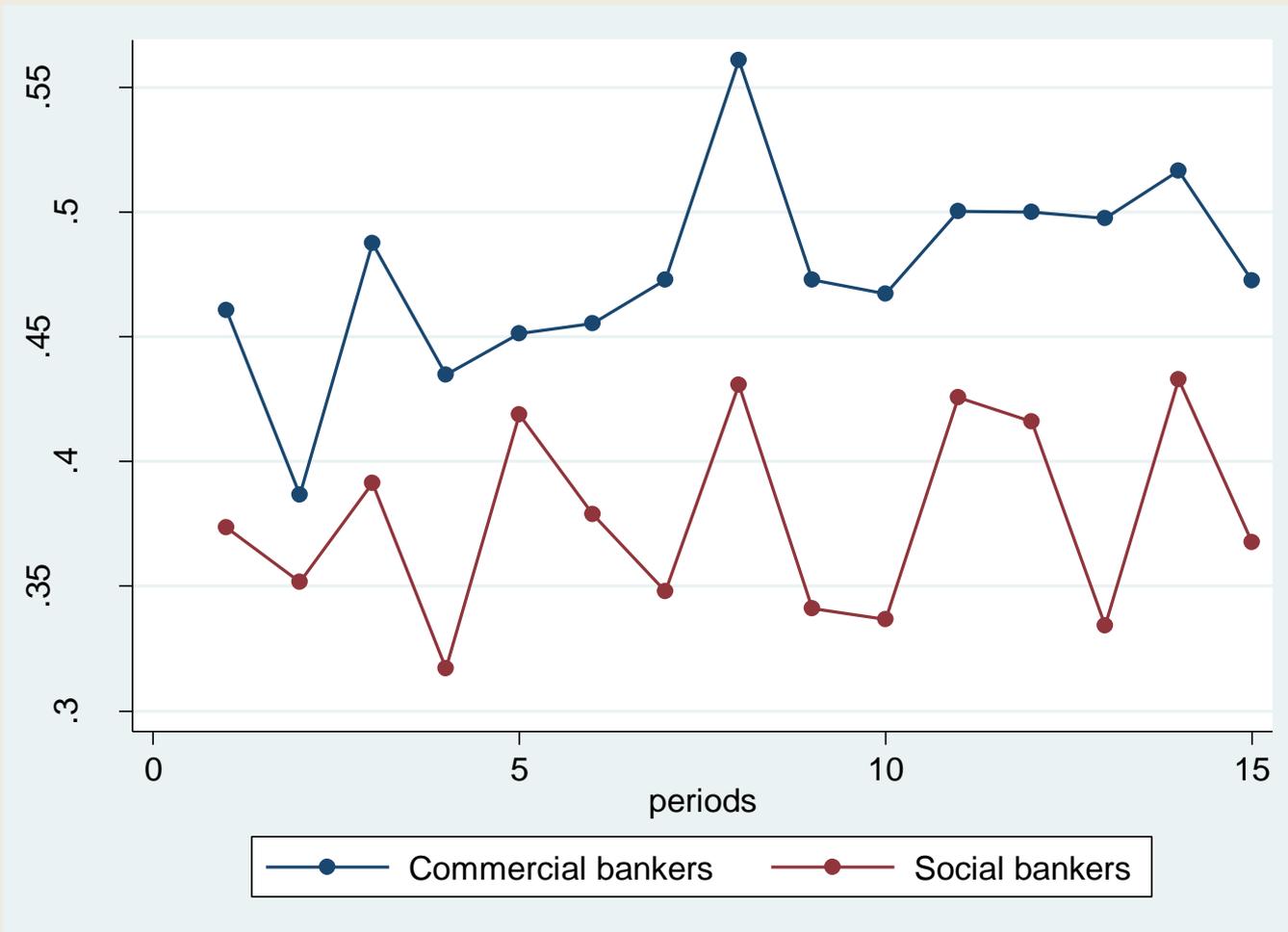
4. Behavioural Evidence from the Lab

❑ *Ex ante* moral hazard [Graph data from Cornée, Masclet, and Thenet (2012)]
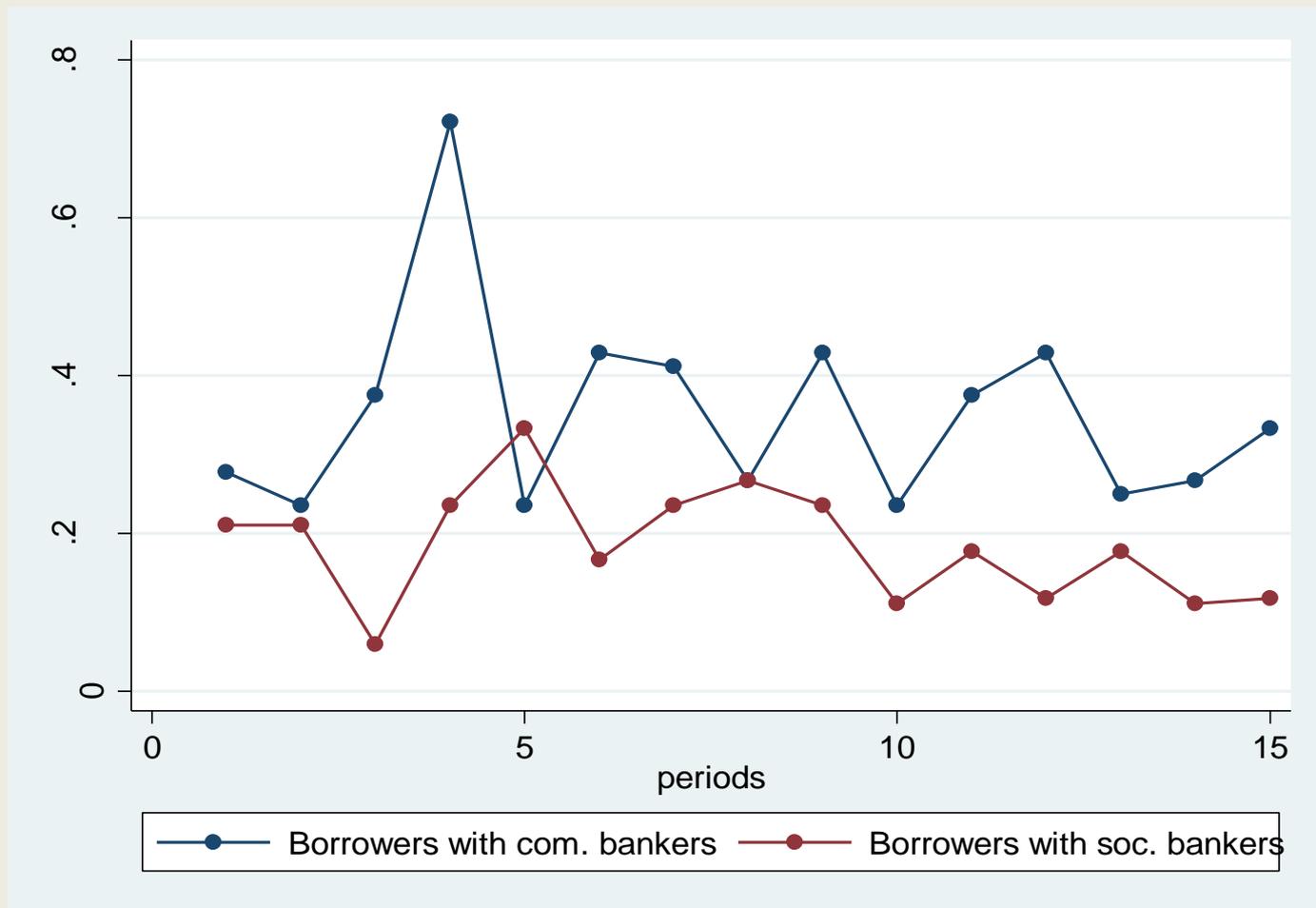
4. Behavioural Evidence from the Lab

❑ Generally speaking, not everyone maximises self-interest

- 40% to 60% of the population exhibits social preferences in addition to self-interest (e.g. Fehr and Schmidt, 2003).

- Conditional reciprocity is a key motivational driver: rewarding kind actions and punishing unfriendly ones (e.g. Fehr and Gächter, 2000).

❑ In the credit market

- Significant fraction of borrowers would honour the debt contract if they perceive the lender's offer as fair (e.g. Fehr and Zehnder, 2004; Brown and Zehdner, 2007).

5. Field-Data Evidence at the Micro Level

❑ Econometric case study (Cornée and Szafarz, 2013)

- Hand-collected data from a French social bank: *La Nef*

- 389 individual loans

- Financial rating

- Social rating, which measures the proximity of values between the applicants and the bank from the viewpoint of the latter

5. Field-Data Evidence at the Micro Level

❑ **Explaining the credit conditions** (Cornée and Szafarz, 2013)

VARIABLES	RATE	RATE	RATE
SR	**-0.16***	**-0.15***	**-0.13***
FIN	-0.16***	-0.15***	-0.16***
PIBOR3M	0.61***	0.61***	0.59***
STARTUP		0.03	-0.01
RELATIONSHIP		-0.02	-0.02
LOANSIZE			-0.02***
NONCOLLAT			-0.15
Constant	Yes	Yes	Yes
Observations	389	389	389
R-squared	0.57	0.57	0.59

OLS regressions

5. Field-Data Evidence at the Micro Level

❑ **Reciprocity and default prediction** (Cornée and Szafarz, 2013)

VARIABLES	DEFAULT	DEFAULT	DEFAULT	DEFAULT
SR	**-0.12***	**-0.11***	**-0.09***	**-0.09***
FIN		-0.13***	-0.12***	-0.12***
STARTUP			0.12**	0.13**
RELATIONSHIP			-0.09	-0.10
CONTRACTUAL FEATURES	No	No	No	Yes
Constant	Yes	Yes	Yes	Yes
Observations	389	389	389	389

Probit Model (marginal effects)

5. Field-Data Evidence at the Micro Level

❑ Values and reciprocity = endogenous coordination devices

- Social premium is a credible signal sent by the bank.

- Borrowers reciprocate the gesture through virtuous project choice and repayment conduct.

- Values are essential because they foster reciprocity (Akerlof and Kranton, 2005; Chen and Li, 2009).

6. Field-Data Evidence at the Macro Level

❑ **Econometric analysis** (Cornée, Kalmi, and Szafarz, *in progress*)

- Panel data: 6,500 bank/year data; 1999-2013;24 social banks.

- Question: Can the effects of reciprocity be captured at the aggregate level?

  - Do social banks benefit from lower financing costs?

  - Do they charge lower interest rates?

  - Are their portfolios less risky?

- Exploratory work: "yes" to all the questions.

7. Theoretical Challenge

❑ Screening in Social Banks: A Theoretical Perspective
(Cornée, Jegers, and Szafarz, *in progress*).

- Social screening is vital for social banks, because it

  - *directly* conditions lower cost of funding

  - *indirectly* conducts to better repayment performance through reciprocity

➔ Compare optimal screening strategies of social banks and "mainstream" banks.

8. Conceptual Challenge

❑ Better delimiting social banking

- Social banking boundaries with microfinance institutions, credit cooperatives, etc. are still blurred.

- Embrace social innovations in finance, such as crowdfunding, local/virtual currencies, …

- **Any help from the literature on social enterprise and common goods?**