

**First event of the series "Ricostruire l'Italia" (Rebuilding Italy)**

**The Economics of the Social Bank**

**September 30, 2020**

Event report by Gregory Viscusi

What role should banks play in promoting social and environmental sustainability? A relevant one, was the answer from "L'economia della Banca Sociale - The Economics of the Social Bank," the first conference of the cycle "Ricostruire l'Italia - Rebuilding Italy," which took place at Turin's Collegio Carlo Alberto Foundation on September the 30th.

Until recently, there was a clear division between Italian banks and the foundations that control them when it came to philanthropy. Banks concentrated on lending and providing returns to their shareholders, and the foundations took care of funding local charities and civic projects.

It's not so simple now. Not only have Italian banks followed international trends towards caring about a wider share of stakeholders, but they increasingly see sustainability, both social and environmental, as key to their core businesses. "Without sustainability there is no future, without a future there is no profit, and without profit a company can't survive," said Gian Maria Gros-Pietro, chairman of Banca Intesa Sanpaolo. "They can't be separated."

The on-line conference also featured Francesco Profumo, president of Compagnia di San Paolo, the Foundation that controls Italy's largest bank, and Michael Spence, a Nobel prize winning economist. The conference was introduced by the Collegio's President Giorgio Barba Navaretti and moderated by La Repubblica's Tonia Mastrobuoni.

Gros Pietro said that even before the Covid crisis his bank had planned on lending 50 billion euros from 2019 to 2021 to green projects linked to European Union environmental initiatives.

Gros Pietro said Sanpaolo's environmental focus is backed not only by the foundation, its largest shareholder, by also by its second largest, the giant institutional investor BlackRock Asset Management.

"Banks now realize that climate change is a material risk that has to be factored in," Spence said. "If you are going to invest in mortgages on properties on the coast, you better think about whether it could be underwater."

No single bank can influence the climate, Gros Pietro said, and governments and supra-national organizations must develop a road map to transition to renewable energies. He gave the example of farming, which still requires petrol-burning tractors to feed the planet, as reason why an abrupt end to lending to fossil fuels was impossible.

Social sustainability is equally important to the future of banking, Gros Pietro said. Even if the bank delivered 40 billion euros of medium and long-term lending in the first six months of the year, up from 27 billion in the same period last year, social obstacles prevent the economy from absorbing the abundant liquidity being created by central banks.

“Investment isn’t taking off despite low interest rates because businesses don’t see the activity that will create profit,” he said. “Unequal wealth distribution is one of the reasons, because it’s standing in the way of adequate economic activity.”

Gros Pietro also called on public authorities to tap the European Stability Mechanism to jump start health care projects. European finance ministers in April agreed on a 540 billion-euro support package, with the only condition being that the funds be used for health care and prevention costs linked to the Covid-19 crisis.

Some members of Italy’s government have rejected using ESM funds, saying it has a “stigma” attached to it and could result in Italy’s finances being put under EU tutelage.

“Use the ESM: It’s available immediately, it has no inconveniences,” Gros Pietro said. “You could go to the market, but it will cost more. Why throw money away?”

Spence backed up Gros Pietro. “Whatever resources are there, they ought to be deployed,” he said. Though he added that he did understand the “baggage” the ESM carries because of memories of the financial crisis, when countries that did resort to the mechanism were forced to carry out painful budget cuts.

Spence said Europe still needed to plow ahead with its environmental objectives, regardless of the Covid crisis. “We can still keep an eye on longer term objectives,” he said. “Europe is still in a leadership position in the climate change agenda.”

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