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## IMPACT OF SOCIAL BANKING ON BANK PERFORMANCE IN NIGERIA

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### ABSTRACT

*Social banking is a phrase used to describe sustainable banking which is characterized by the provision of financial services to individuals and organizations to create social, environmental or sustainable benefits. It serves as a financial tool to promoting sustainable development in the individual lives of the citizenry and the nation as a whole. As such, key regulators have established and continued to improve frameworks, guidelines and regulations mandating banking institutions to implement sustainability in their business operations and activities. This study examines the overall concept of social banking and its impact on the banking performance in Nigeria. Recent Survey data from Deloitte was used in evaluating the current impact of sustainable banking initiatives on bank performance in Nigeria. Significant positive impact was observed as a result of the integration of sustainable banking principles into conventional banking services.*

**KEYWORDS:** Sustainable Banking; Social Banking; Financial Services; Conventional Banking

### INTRODUCTION

Banks as financial institutions play a crucial role in the global economic system. Banks intermediate between the savings-deficit and the savings-surplus. Furthermore, banks play an important role in facilitating our daily activities from household financial activities to the most complicated financial activities performed by the biggest corporations around the world, e.g e-payment, e-recharge, etc. Thus, banks affect our lives in many important ways as they assure the stability of the economic system (Terhi & Pierre, 2013). The banking sector plays an important role in the lives of people by facilitating the flow of funds and ensuring the stability of the global economy.

Social banking is synonymous to sustainable banking. This expression has advanced and currently encompasses other banking activities carried out through social network channels or social lending such as P2P (peer-to-peer) lending. The term social banking can also be linked with the interaction between clients, managers or with financial experts through secure

online platforms. This alternative system of banking known as social banking has been in existence for a long time, but it has been often overlooked. In 2008 the world financial system faced one of the biggest failures of its history and one of the major players in initiating the crisis was the banking system that people had trusted (Isidore, 2016). This trust was broken as a result of the crisis, and as a result of the misconduct, moral hazard, and scandals committed by many banks [Touryalai, 2012; Close, 2016]. Thus, because of the importance of banking systems and its proneness to crises, there are studies that have referred to a possible failure in the current banking system and presented the idea of a new alternative banking system. One of such alternatives presented is social banking.

Peer to Peer banking in Nigeria has been on the increase with some commercial banks incorporating it as part of their banking services. These social banking platforms incorporated by banks in Nigeria include the 737 agent banking by Guarantee Trust Bank and Alat by Wema bank. These they established to ensure their

continued relevance in the future of banking services in the world and Nigeria particularly.

According to GABV (2012), social banking works with a triple bottom line method at the basis of the business model and is deep-rooted in communities, serving the real economy and facilitating new business models. In summary, the emphasis of social banking is on achieving positive environmental, social and sustainability impacts by the use of financial services to achieve a blended value return. The speedy adoption of interactive technologies has changed the entire banking industry. Currently, banks are expected by their clients to provide immediate financial information and services around the clock, causing financial institutions to respond with satisfactory digital solutions.

Social banking is a subdivision of social finance of which other subclasses are microfinance as well as impact investing. Impact investing aims at solving social or environmental challenges and also generate financial returns for the investors. Some types of impact investments may generate financial returns which are similar to conventional investments, while other types of impact investment do not create any financial return or do not pay back the financial investment.

Peer-to-peer lending is another aspect of social banking, which is also referred to as social lending. This was initiated because of the financial crisis that caused traditional lenders to stop providing certain financial products and it became more difficult for consumers and (smaller) businesses to obtain loans on a non-secured basis. With the advancement of technology, people can now connect online to do business with others, resulting in a boom in the P2P sector. According to a report by Morgan Stanley, the global P2P lending market is currently valued at 24 billion US dollars and has a potential of reaching 290 billion US dollars by the year 2020. P2P has enormous untapped potentials of connecting people across the globe for the purpose financial transactions.

Social banks are financial institutions that differ from conventional banks by emphasizing social responsibility values instead of only focusing on profitability. Several vital differences exist between social banks and conventional banks, these include dissimilarities in asset allocation, stakeholder involvement in decision-making, higher levels of transparency, and additional social screening of loan applicants and investment opportunities. The purpose of social banks is to channel funds from socially-minded investors to borrowers with the right motivations. Social banks deliver financial services that create social, environmental or sustainability benefits. Unlike conventional banks, social banks imbibe these principles as their core value and strategy instead of applying them as a supplement to conventional missions such as creating shareholder value or

maximizing profits. One of the missions of social banks is that of enhancing the economic and social welfare of members (Affinity Credit Union).

We can, however, note that social banks do have certain advantages such as better liquidity, and this suggests that the overall stability of the financial system could potentially be improved by conventional banks adopting some of the more successful practices of social banks. Social banks can act as intermediary agents in linking the surplus and deficit units while aiming to fight poverty, support social development, and enhance social unity and the development of projects that support these causes. Therefore, the strategy of social banks is aimed not only towards profit maximization, they work towards achieving social sustainability, moral values and other positive social externalities (Ramlall, 2013)

### **CONCEPTUAL FRAMEWORK**

Kaeufer (2010) defines social banking as giving attention to some of the most persistent issues in banking. The definition shows that social banking is not necessarily about profit making but value creation. (Weber & Remer, 2011) define social banking as aiming to have a positive impact on people, the environment and culture by means of banking. Again, the focus is on social and environmental benefits. Financial returns are often achieved but are not a necessary condition of social finance. Different kinds of social banks exist around the world nowadays. Many social banks subscribe to the principles of sustainability and like to engage with projects that appeal to their social and ethical values. Examples of social banks that operate in Nordic countries include Ekobanken in Sweden and Merkur Bank in Denmark. As opined by Ekobanken (2018), their philosophy is based on investing funds on projects that enhance the environmental, cultural, social, and economic sustainability in society.

Another interesting subgroup of social banks exists in the form of banks that do not charge interest. Most of such banks mainly exist in the field of Islamic finance, and they have arisen because Islam as a religion forbids the use of interest-based transactions. Instead, Islamic finance encourages banks to participate in risk sharing, so that instead of receiving interest payments on loans the bank will share on the profits or losses of the investments that it makes. Like with other social banks, a high level of transparency is required in order for this system to work (Ahmed, 2010). Islamic finance has been one of the rising trends during the past couple of decades especially outside of the “Western” economic context and is often seen as a more socially responsible way of investment and part of the general trend on ethical or social banking as Islamic banking should share the same ideals of equity and fairness (Saidi, 2009). In addition to Islamic banks, there are

some financial institutions that have decided to adopt the principles of interest-free banking without the religious background. These banks, like Islamic banks, have often adopted a system of profit and loss sharing (Milano, 2011). One interest-free bank operating in the Nordic context is JAK Medlems bank, a Swedish bank that allows its members to deposit savings and take loans, all without interest. JAK believes that interest rate creates negative impacts on the economy and people should not be able to earn money merely by having money, and they list several values such as equity, democracy, economic freedom, and eco-friendliness.

A third subgroup of social banks are microfinance institutions that mainly operate in developing countries (San-Jose et al 2011). The purpose of microcredit is typically to give small entrepreneurs in poor environments better access to small, collateral-free loans and thus improve their opportunities and welfare (Rahman, 1999). Microfinance institutions usually qualify as social banks because their main objective is to fight poverty and create growth opportunities. Many microfinance institutions also specifically target to empower women in developing countries through promoting possibilities for entrepreneurship (Karlan & Zinman, 2011). Grameen Bank, operating in Bangladesh, is a well-known example of a microcredit bank, and many international non-governmental organizations have also worked with microcredit institutions (Milano, 2011).

Although there is an absence of an ultimate, clear definition to specify the frames and polices of social banks on the field of literature, most authors define social banks as follows: the concept of social banks refers to a hybrid financial intermediary institution that works for the common good of societies by accepting deposits originated through real economy activities and investing or offering credit without being

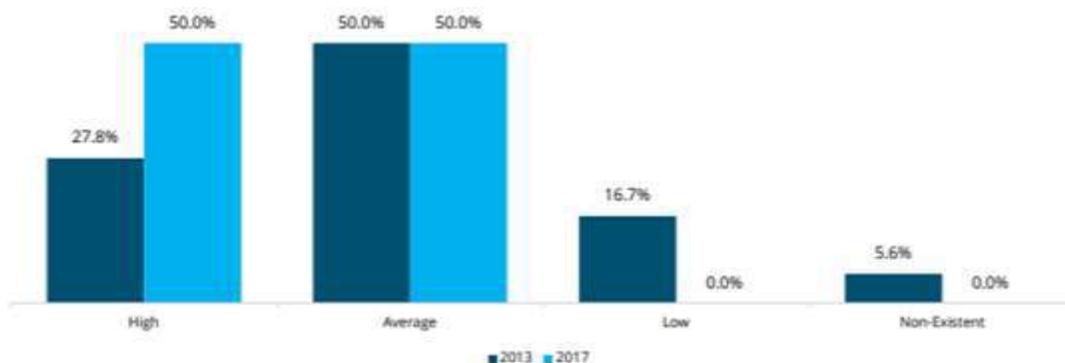
speculative but being ethical and transparent in order to achieve a sustainable economy. Most social banks tend to follow the triple bottom line ideology, though as has been discussed, there are many different kinds of social banks around the world with different philosophies and business models.

**IMPACTS OF SOCIAL BANKING ON BANK PERFORMANCE – THE NIGERIAN SITUATION**

The terms sustainable, social, responsible, socially conscious, green, and ethical investments are terms used in defining social banking activities. The central criteria necessary for the sustainability of an investment environment are social justice and corporate governance (Salzmann, 2013). Social banking in the Nigerian perspective, is yet to gain solid footing, but so far, a good level of progress has been recorded in the aspect of integrating sustainability initiatives into conventional banking activities. Sustainable banking, with regards to value-driven investments centers on the environmental and social impact of investments and has been in existence since the 1950s. On 24th September 2012, the Central Bank of Nigeria launched the Nigerian Sustainable Banking Principles. The implementation of these principles are compulsory and require banks and development finance institutions to cultivate a management method that stabilizes the environmental and social risks identified with the opportunities to be exploited through their commercial activities (Guardian, 2013).

A survey by Deloitte (2017) revealed that in 2013, almost a quarter of banks had low engagement with sustainable banking principles but as at 2017, all the respondent banks report an average or high level of engagement with these sustainable banking principles with a commitment to maintaining these sustainable banking principles on their public platforms.

**Fig. 1**Level of Engagement with the Nigerian Sustainable Banking Principles (NSBP)



Source: Deloitte, 2017

Most Commercial banks in Nigeria are increasingly adopting and executing sustainability initiatives addressing a diverse number of issues, from women economic empowerment to green facilities. Reports by UN Women (a United Nations entity) has shown that investing in women's economic empowerment promotes gender equality, poverty reduction and ultimately, inclusive economic growth. Although these were not specified as high priority for the respondent banks, their focus on women economic empowerment contributes to improvements in this area. Other sustainability initiatives adopted by banks include community investment programs such as young adult development and skill acquisition programs, financial inclusion programs such as Mobile money services and Financial education programs, as well as Project Funding services such as Support of environmentally friendly projects (as per E&S Management Framework).

Studies by the International Finance Corporation (IFC) have shown that banks have positively benefited from the implementation of sustainability initiatives in their business practices. These benefits include improved reputation and better investor confidence. As a result of these benefits realized by banks from their sustainable banking activities, new sustainability related opportunities are being sought to enable them make a difference in the market. To a large extent, this has contributed to the improvement of sustainable development in Nigeria. Innovative products and services that target certain populations (e.g. women) or that encourage purchase of green products (e.g. green credit cards) go a long way in promoting sustainable practices (Deloitte, 2017).

Generally, the sustainable banking survey revealed positive responses from the participating banks. All the respondents have engaged with sustainable banking in one form or the other. Majority of the banks have reported that they can directly link business growth (in terms of financial and non-financial benefits) to their sustainable banking activities. Despite this progress, all the banks acknowledge that more needs to be done to improve on their current progress with sustainable banking.

## CONCLUSION

Based on the available information, we can say that social/sustainable banking has its benefits, and clearly has its place existing along with the conventional banking system. However, based on the current developing state of the Nigerian economy we cannot totally recommend social banks as a replacement for conventional banks, but we can strongly recommend that proper integration of social banking methods could be beneficial for conventional banks as well, and help stabilize the overall financial system. Implementing the above will help banks

continue to consolidate on their level of success and ensure continuous realization of the benefits that sustainable banking brings. However, for banks to experience maximum positive impact on the sustainable development of the country, they have to incorporate sustainable banking principles in their core values, keeping them at the heart of their business. This will be evident when their sustainable banking strategy is not peripheral, but highly integrated into their overall business strategy.

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