fewer but better Brazilian institutions left after a wave of bank M&A show renewed focus on profit generation. "Banks had to review their practices in order to attract more investments and clients," says Cox.

He adds that they see sustainability as a tool to win market share. But he notes that Brazilian banks are slow to introduce new services and products, like environmental or social funds, that have sustainability appeal. "M&E sees this gap as the major challenge for [Brazilian banks] for the next few years," says Cox.

M&E notes that banks in other countries, like BCI Chile, highlight advances in microfinance to underscore a sustainability agenda. Microcredits in LatAm are understood to have low default rates, since they go to small businesses which depend on these credits for survival, and thus take repayment very seriously.

M&E sees LatAm banks developing more consistently versus their developed markets counterparts. "Aside from capital coverage measures and increases in the cost of getting liquidity for smaller banks, LatAm banks haven't wildly reacted or been affected by the financial crisis. This is unlike European and US banks," says Cox.

He notes that Deutsche Bank in Frankfurt is fighting for lost confidence and that even though its stock price has more than doubled since April, it is still far from the peaks. Bradesco meanwhile is only about 25% away from all time highs, notes Cox.

Meanwhile, as in previous M&E studies, subsidiaries of large networks – for example HSBC and Scotiabank – perform highly unequally. "Santander apparently hasn't as effectively consolidated their banks, unlike BBVA, which is concertedly working on this," says Cox. "Many multinational corporations are not taking the same care with subsidiaries."

M&E notes that sustainability and governance systems are hard to organize within a network where new banks are acquired and being managed from Spain, for example. "Big local entities do best," says Cox.

In general, M&E stresses the need for banks to have a corporate governance policy that can help it weather a storm. It notes the importance of having an executive board which mainly consists of independent directors, policies guaranteeing ownership rights, support from auditing firms and strong discipline in controlling risk.

"There must be overlapping governance and control systems ranging from sophisticated IT systems detecting rogue trading to overlapping committees that control the quality of assets on a daily and weekly basis," say Cox. "A sophisticated ethics system helps to prevent bad things from happening at all levels."

According to M&E, banks should also be able to monetize spending on sustainability. The research firm says they can make returns on investments as diverse as sport sponsorship, governance systems and certifications, and it detects a move by banks to try and quantify this. **LF**

UPDATE >

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