Do Banking. Avoid Politics.
by Charles B. Wendel

A website reports that "A new poll from the Trafalgar Group, in conjunction with Convention of States Action, 51.8% of respondents said they were 'very likely' to stop using a product or service of a company that openly advocates for a political agenda they oppose, while 35.3% said they were 'somewhat likely' to do the same."

Financial services firms that take political positions risk alienating shareholders, employees, and may lose sight of their real mandate, providing top quality products and services to clients. Right now, outside of financial services Disney appears to be suffering from its actions in response to a recent Florida Law, it's once stellar reputation harmed.

Many banks appear to suffer from a corporate case of ADHD. They invest in and support a certain initiative, and, then, months later move to the next shiny toy. For years the small business segment has been a victim of this approach. Distractions take way from a bank's commitment to the customer and its bottom line. Engaging in politics becomes another distraction, a particularly dangerous one and may put them in conflict with their customers' wishes..

Example: Whether to placate special interest groups or from a deep-seated commitment to change, some banks have decided not to support the fossil fuel industry.

Environmental groups have pushed for this. From CNBC: "Getting lenders to choke off money to fossil fuel companies is the next needed move for the industry to address the material risks that the coal, oil and gas industry faces," says Leslie Samuelrich, president at investment advisory firm Green Century Capital Management."

A December 2021 Reuters article reports, "Climate-focused investors are calling on the major U.S. banks to quickly scale back their financing of new fossil fuel development, saying current commitments by the banks to curb global emissions are not enough…The resolutions from members of the Interfaith Center on Corporate Responsibility (ICCR) go further, effectively seeking an immediate end to the financing of new fossil fuel development ."

In response banks have been making various commitments to reduce caron emissions, finance green projects, etc. Easy solution right? No. It's complicated.

In November of last year, *The Federalist* website headlined a story: *15 States Threaten To Pull $600 Billion From Banks That Won't Give Equal Service To Energy Industry*. The CFOs of these states summarized their position: "How can we as states get dollars from severance taxes and then park it in banks that are at the same time trying to diminish those dollars by trying to boycott our industries?...This is just more of the same from these woke capitalists, globalist interests out there when it's them trying to dictate to us the way we need to live our lives."

Despite their push back, those who want fossil fuels restricted ASAP are having an impact. The head of the Western Energy Alliance said, "We can't get capital because they're putting so much pressure on banks not to lend to us in the name of climate change."

This is one issue among many that banks are either being dragged into or voluntarily addressing. We all support a move to cleaner energy, but anyone filling up a gas tank today experiences the impact of a poorly thought-out transition plan by the current administration.

Given the reticence of some powerful lenders and investment groups to support the traditional energy industry, it seems fair to view them as contributing to current high energy prices and increasing inflation.

Energy is just one issue among many in which special interest groups are pressuring banks and other public companies. Some banks are providing support related to abortions. Some have contributed to the scandal-laden BLM organization. What's a bank to do, as it faces governmental, internal employee, and external constituency pressures?

Of course, there is no easy answer, but it seems that what some banks have done in the past is to allow themselves to be pushed in reaction to pressure in the hope that the special interest group will go away. That doesn't work. Special interest groups will ask for more concessions. And then some more. And so on. Banks need to conduct some scenario planning before they submit to pressure.

One can make the case that, at least in the short term, more, not less, investment in fossil fuels better serves the U.S. and its people. Should big banks be pushing back against opponents and staking out a pro fossil fuels position and articulating a realistic transition plan?
