ESG
by Charles B. Wendel

Note: Here are 7 verified charities working to help Ukrainians amid invasion:
https://news.yahoo.com/5-verified-charities-working-help-185109710.html

Charlie Gasparino, previously with CNBC, is now a business reporter for Fox and the New York Post. On Sunday his wrote an opinion column titled, "Russian invasion sheds light on hypocrisy of Gary Gensler, woke investment."

Much of his column centers on Gensler, the head of the SEC. He criticizes Gensler as a hypocrite, who emphasizes virtue signaling. Gasparino's issues with Gensler aside, banks and FIs need to consider both the benefits and the risks of the ESG path.

As defined by Gasparino, despite its obvious upside and value, ESG involves risks for financial services firms and the end customer.

"ESG is the acronym for environmental social governance. It's an amorphous group of edicts that have been adopted by big Wall Street firms, investment managers and many corporations to allegedly make the world a better place. [Also, commercial banks and other FIs]
Follow ESG edicts and you will help protect the environment by investing in windmills instead of oil companies. Board diversity is big under ESG rules. So is supporting social justice, which is why you see so much corporate money flowing to groups like Black Lives Matter.

Do all of that and you can virtue signal 'til the cows come home despite obvious drawbacks. Reducing your carbon footprint might be a good thing but do it as the ESG zealots want and you get what we have now: Higher energy prices because of the inefficiencies of windmills." That's a tax — and a big one — on the working class."

He goes on to write that ESG rules "prevented no investment fund, bank, or company from doing business with Putin or Xi. Only now when Putin's bloodlust appears to have now gone too far, are the wokesters walking back their hypocrisy."

Although operating on a lower sale of wokeness, some FIs, whether trying to do the right thing and/or placate special interest groups, may have gone over the edge of reasonableness. Companies may decide that their principles merit the loss of some customers, although shareholders might want some input. American Express provides one of the most prominent examples of corporate wokeness. A Manhattan Institute report stated that in 2020 Amex launched an initiative that included employee training. Its focus included "core CRT tenets, including intersectionality, which reduces individuals to a tangle of racial, gender and sexual identities that determine whether he is an 'oppressor" or 'oppressed' in a given situation."

Programs like this open a company to criticism both from high end and other users. This year the Platinum card fee increased from $550 to $695, making the card harder to justify for some. And the company's social concerns do not appear to extend to businesses accepting the card (they usually charge higher interchange than other cards) or to consumers. A Washington Examiner op-ed points out the unsurprising news that Amex charges people different interests based on credit scores. The writer goes on to state "the average credit score among white people is 725, compared to 612 among black people…AmEx is almost certainly charging black people higher prices for the exact same service."

This allows an editorial writer to charge the company's management with hypocrisy: "The wokesters at American Express want *everyone else* to change, but they do absolutely nothing themselves that will harm their fiscal outlook. The company's differing rates of interest are entirely defensible economically, but they certainly don't comport with the notions of 'equity' pushed in their 'anti-racist' training… Maybe American Express might take some financial losses at the expense of the ideologies that its executives so eagerly want to support."

I see banks pursuing what Churchill termed "jaw-jaw" rather than taking fundamental actions that could benefit customers. Ending overdraft fees does that, but so would reducing rates on cards and loans and encouraging greater financial knowledge and restraint. For example, almost weekly I receive some communication from my own woke bank asking if I want to increase my credit line or turn a card transaction into a longer-term loan. Thanks, but I am only using you, and not Amex, for the airline points. Stop trying to drag me and many others into more debt while, at the same time, you are promoting your corporate citizenship.

Of course, ESG initiatives such as diversity are positives. But some companies with the encouragement of targeted consulting firms eager to exploit a new niche (another niche I have missed!), instead of reputation building may be harming a company's reputation with some important customer segments.

Reevaluate ESG initiatives for their impact on employees and customers. Many may fail that evaluation process.