



Concerned SDGs: 8, 11, 12, 17

Company name: MagNet Hungarian Community Bank

Industry: Banking



CHALLENGE

Financial market is the mediator between economic actors with surpluses and shortages. Financial intermediators transform money by maturity, size, geographic location and risk, so have a major impact on the development of other economic actors. Funding and collecting activities catalyse and regulate others' economic activities. That is why banking sector nationally and globally has a more consolidated regulation than other sectors, but mostly in financial, and not social or environmental term. The catalysing effect is both quantitative and qualitative, influencing the size and direction of economic development, that is why the role of the financial system in sustainable development is enormous¹³.

In traditional banking clients give their money to the banks and gain interest on their deposits. They do not know the purpose for which the bank lends their money. They do not feel responsibility for the other side of their customer choice. In turn, as the world around us is built on loans, financial institutions and their clients have great responsibility over which sectors are prospering and which are stagnating.

That is why at MagNet Bank “Values-based Intermediation” exists. Deposit owners of the MagNet Bank support clients financed by the Mentor and Sector community loans. In case of Mentor loans, deposit owners support a specific borrower client with their savings, while in case of Sector loans, a specific group of clients (Sector) is aided based on the nature of activity.

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¹³Goyal, K. A. and Joshi, V. 2011. A Study of Social and Ethical Issues in Banking Industry, *International Journal of Economics and Research*, 2(5), 49-57



PRACTICE

Besides the classic indicators, the level of social utility is considered very important among the credit scoring factors of MagNet Bank. An impact scorecard is used, the calculation tool will be available in their website soon. By this scoring they can choose the purposes appropriate for Mentor or Sector loans.

At the time of placing the deposit¹⁴:

- the owners of a Mentor deposit may select the conditions of which loan pertaining to one of the loan recipient clients they wish to make more favourable with their deposit. The details of the loan are transparent for the depositors.
- the owner of a Sector deposit may choose from the loan purposes which the bank supports, and the bank will allocate a loan in the specific sector from the deposit.

The clients influence the interest level of the credits giving for specific fields or purposes by determining the rate of the interest paid on their deposit. They may even choose an interest lower than the market interest if they wish the specific recipient's loan to have even more favourable conditions. The impact is providing loans for more sustainable projects.

In 2016, the savings amounting to EUR 38 million of 2 539 deposit owners helped 30 Mentor and Sector loan borrowers to reduce the annual cost of their Mentor/Sector community loans by EUR 19 812. In the meantime, the total amount of deposits of MagNet Bank increased by EUR 35 million, from EUR 246 million in 2015 to EUR 282 million¹⁵.

Main sectors supported by these initiatives¹⁶:

- Bio-Agriculture
- Healthcare and Social Service
- Environmental Protection and Nature Conservation
- Culture and Education
- Research and Development
- Green Energy
- Job Creation
- Community Donation Program (CDP) - Support fund of non-profit organizations

Not every sector is equally successful in every time, but they are committed to the defined goals and sectors – while the bank must keep up with the actual trends as well, e.g. in 2018-2019 the financing of hotel construction is very profitable while it has a nearly neutral social impact.

¹⁴<https://www.magnetbank.hu/en/about-the-community-bank/community-deposits-and-loans>

¹⁵https://www.magnetbank.hu/community_report_2016/

¹⁶<https://www.magnetbank.hu/en/about-the-community-bank/community-deposits-and-loans>



PRACTICE

The Mentor and Sector loans – and the whole philosophy of the bank – have significant implications in both the organizational structure and culture. At the top there are seven equity partners, under them there are the senior partners, and normal partners – all work for the bank as leaders. In the Partnership Program equity partners meet twice a year with changing, diverse group of lower-level leaders, so they gain insights to the bank’s activity by many different viewpoints, while every



leader knows that his/her opinion matters as well. The strategy and new ideas are discussed during these meetings. This approach defines the bank’s motivation system as well: employees are motivated by the mission of the bank, this intrinsic motivation should be encouraged and not extinguished by e.g. too much profit-oriented performance expectations and KPIs.



BENEFITS



With the development of responsible consumption, banks can influence depositors' and borrowers' decision making not only by more favourable interest rates, but also by moral premium (when clients can know that their money serves for good reasons).

With the participation of the clients, MagNet Bank provides resources for initiatives which have a beneficial impact on the society and environment. This is the essence of Values-based Intermediation. They exclude automatically certain activities from loan opportunities, the ones which the conscious and responsible clients would probably disapprove too. Besides earning an interest in the community deposit, the clients' money may also serve a purpose which is important for them as well. Furthermore, the bank's clients can reduce the loan burden borne by the borrowers just by keeping their savings in the community deposit.

The depositors of the community bank are entitled to determine and monitor what happens to their money, and whose loan they make more favourable.

¹⁷<https://www.magnetbank.hu/ujbudai-kozossegi-pont>

¹⁸<https://www.magnetbank.hu/#ldijak>



Value based principles are at the heart of business model and appears of all levels of the organizations, and also through products and services creating involvement for employees, customers, social entrepreneurs and NGO partners. It encourages the establishment of a value-centric society: *"We believe in a world where finance is characterized by humanity, sustainability, and transparency"* - Gábor Pozsonyi, Deputy CEO of MagNet Bank¹⁷ The bank has won seven times the "Socially responsible bank of the year" first prize¹⁸.

Customers are actively involved into the decision-making process by community products like Mentor/Sector deposit and loan products, or bank cards supporting social issues and helping programs, or with a donation program based on the decisions of individual customers and corporate partners. This co-stakeholders involvement provides the clients and business partners' opportunity to take responsibility, thus creating healthier connection to money.



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Besides the moral benefits, the business case is also experienced. The reputation of the bank can be seen in the motivation of employees and in the growth of clients' number (15-20% growth per year). Besides according to the research of the Global Alliance for Banking on Values¹⁹ European values-based banks has performed better since 2008 than the largest banks in Europe. As their business model is more balanced, they are more resistant to economic crisis, their performance is more sustainable in business terms as well.



¹⁹GABV: *Real Economy – Real Returns: A Continuing Business Case for Sustainability focused Banking – 2016 Research Report*, <http://www.gabv.org/wp-content/uploads/2016-Research-Report-final.pdf>