CLIMATE MYSTERY SHOPPING IN LUXEMBOURG-BASED BANKS

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GREENPEACE

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Introduction

Sustainable investment is "*in*". More and more bank clients want to invest their money sustainably. "*Green finance*" and "*sustainable finance*" are increasingly developing from a market niche to the mainstream in finance. At the same time, however, it is becoming clear that many "*green*" financial products do not deliver on their promises. **The financial industry is increasingly exposed to accusations of greenwashing.**

Greenpeace Luxembourg has been drawing attention to this deceptive marketing practice, notably in June of 2021, when a report published by the NGO in collaboration with Greenpeace Switzerland found that sustainability funds hardly redirect capital to sustainable activities compared to conventional funds.

With an increasing number of individuals wishing for their investments to have a positive impact on the environment, **Greenpeace investigated how well banks in Luxembourg advise their clients on climate-friendly investments.**

Climate Mystery Shopping at six Luxembourg-based banks

Greenpeace carried out a «mystery shopping» at six banks based in Luxembourg. For this purpose, a diverse group of mystery shoppers with varying degrees of financial expertise set up advisory appointments with one or two banks.

The aim of the project was two-pronged: firstly, **to assess the quality of the advice given by the bank advisor as well as the quality of any informational material** (brochures, leaflets, etc.) provided; secondly, **to analyse if the financial products proposed during the mystery shopping fulfilled the requirements of a truly climate-friendly capital investment**.

Prior to their appointments, all participants received a comprehensive briefing on how to conduct the mystery shopping, including guidelines for answering certain standard questions regarding their preferred investment horizon, risk affinity, return expectations, etc. This ensured that all mystery shoppers were offered fund-based investment products. Afterwards, they shared their customer experience by completing a standardised questionnaire that was later evaluated by Nextra Consulting, an independent business consultancy.

In summary, a total of **19 mystery shoppers** conducted **27 counselling interviews** in a total of **6 different banks**. These included:

- Banque de Luxembourg
- Banque internationale à Luxembourg
- Banque et Caisse d'Epargne de l'Etat (Spuerkeess)
- Banque Raiffeisen
- BGL BNP Paribas
- ING Groep

The mystery shoppers provided Nextra Consulting with the necessary data that allowed the consultancy to examine the quality of the given advice, of the provided informational material and of the climate-friendly character of the so-called sustainable products on offer, as detailed below. All appointments took place after 2 August 2022.

Sustainable investments: Good advice is hard to come by

For a private individual wanting to explore sustainable investment avenues, having an expert listening to your expectations and offering the right guidance is crucial. To this end, many set up appointments at their bank. In turn, bank advisors should use this opportunity to ask for all the relevant information regarding the client and their preferred investment approach as a basis for what kind of product(s) to propose. This is all the more important since the **new MiFID II requirements**, which entered into force on 2nd August 2022, stipulate that financial advisors must ask about and **consider the sustainability preferences of their clients** before conducting financial operations on their behalf.

However, our analysis came to the conclusion that sustainable investment advice provided in the banks visited was often lacking when it came to addressing the client's wishes, relating information in a clear manner, and conforming to the latest legal requirements.

Only in one third of the cases did advisors inquire about the mystery shoppers' interest in sustainability. Even after the undercover clients brought up the approach they were looking for themselves, sustainability was not further discussed during 37% of the appointments. The mystery shoppers indicated in the survey that despite their expressed investment preferences, the main part of the product presentation focused on questions about return and risk. One mystery shopper stated:

> *"Despite me being a complete novice, the advisor felt that I had to take certain steps myself such as monitoring investments and researching myself whether an investment is sustainable or not."*

By disregarding their clients' interest in sustainable investing, banks thus do a disservice to the sector by preventing popular demand from fuelling the development of truly sustainable financial products.

Finally, in 52% of the consultations, the mystery shoppers indicated that the investment strategy proposed by the advisor was simply **not comprehensible in terms of its climate-friendly impact**, even after the advisor's explanations. Bank employees often heavily relied on marketing material to support their attempt at explaining the sustainability profile of the proposed product. In 25 of the 27 consultations, information materials were used and partly also handed out to the mystery shoppers. While the information contained in the brochures etc. was deemed useful in about 60% of the consultations, the shoppers found the documents used or handed out for the assessment of the product not helpful more than 30% of the time. One mystery shopper explained: "*I also found it negative that I wanted a climate-friendly product and was then sent an email with 10 attachments with which I, as a layman, am overwhelmed*". Banks should relieve the burden placed on their advisors by providing information material that is correct, comprehensible and tailored to clients' general concerns and preferences.

In about half of the consultations, **conventional products were (also or exclusively) offered** despite the expressed preference for climate-friendly capital investment, which is in clear contradiction to the current legal framework.

The results of the Mystery Shopping show that there are currently **considerable deficits in the provision of advice** on sustainable or climate-friendly capital investments. The above-mentioned results beg the question: why did the consultations generally fail to address the client's wishes and expectations? One potential cause could be insufficient knowledge of the legal requirements and what actually constitutes a sustainable investment. As one mystery shopper put it:

> "*In my opinion, the advisor did not have enough experience in advising clients on climate-friendly products.*"

In a clear violation of the MiFID II regulation, clients were offered conventional products despite their expressed preference for sustainable investments. This highlights another potential cause for the banks' poor advisory performance: the lack of sustainable alternatives to conventional financial products. One mystery shopper cited the following comment they received during an appointment: "*The advisor replied that the range of products on offer at the bank is neither very broad nor very sustainable at the moment.*"

Regarding the bank employees, it remains to be said that, despite the shortcomings described above, **50% of the mystery shoppers rated the counselling interview as good or very good.** Above all, they appreciated the often very open and honest tone with which the advisors explained the limitations of the sustainable products offered by their institution.

Sustainability funds on offer: None fulfilled the requirements of a truly climate-friendly capital investment

The EU's efforts to prevent greenwashing in the financial sector, namely the Sustainable Finance Disclosure Regulation (SFDR) and the EU taxonomy, have so far fallen short of their ambition. The truth today is that **green finance seems to be predominantly a marketing ploy without a real positive impact on the environment.**

This sobering conclusion is reflected in the results of the Mystery Shopping. During the 27 undercover appointments, the mystery shoppers were offered only 11 products that were advertised as sustainable. Such products should at the very least only invest in assets or companies that are aligned with the goal of the Paris Climate Agreement of limiting global warming to 1,5°C. They should also exclude from their portfolio companies whose activities prevent them from transitioning to a Paris-aligned business model in the future. Yet, a detailed analysis revealed that none of the proposed products fulfilled the necessary requirements to be considered a truly sustainable investment vehicle.

Some products were marketed as sustainable although their investment strategy showed no discernible concern for sustainability or climate protection.**None of the funds on offer referred specifically to the 1.5 degree reduction path.**

A detailed analysis of the fund products advertised as climate-friendly found that they either have no climate focus or no sustainability focus at all.

The two funds with a <2 degree investment horizon used a calculation method that could not be verified by the experts at Nextra Consulting.

On a positive note, some asset managers now provide quite comprehensive "*performance reports*" on an annual basis to describe the sustainability impact of their products. **However, some of the impact promises made to clients have no basis in reality.** In principle, the desire of fund providers to quantify the positive impacts associated with «*green*» products is understandable. Statements on the impact of investments, such as can be found in the impact reports of some of the sustainability funds offered during our Mystery Shopping, cannot be proven and have already led to various lawsuits in other countries.

Another issue asset managers are facing is the fact that many companies do not currently provide sufficient data on their EU taxonomy conformity, making it very difficult for asset managers to assess whether or not these companies are actually complying with said taxonomy. On their part, many asset managers also proved to be less than forthcoming with relevant information. In general, the analysis found that for most products advertised as climate-friendly, there was a **considerable lack of transparency and reporting** with regard to the concrete design of sustainability approaches and criteria.

As it stands, it is very difficult for bank employees and private investors to assess the sustainability of the financial products on offer, even if they are willing to comb through the available documentation.

The way forward: Banks must provide their clients with appropriate advice on sustainability

As we have seen, private investors are currently hard-pressed to find reliable and useful advice on sustainable investment opportunities. Advisors still focus on the traditional topics of return and risk while often paying little or no attention to sustainability-related product features. The mystery shoppers reported a perceived lack of experience on the part of the advisors and often struggled to understand the investment approach they proposed.

None of the analysed products met the minimum requirements for sustainability, particularly with regard to Paris compatibility. Asset managers were far from being able to provide reliable information on the EU taxonomy compliance of their investment portfolios. Some products were claimed to have positive environmental impacts that hardly pass the reality check.

Overall, the products on offer showed a significant lack of transparency. The information material provided was helpful for some customers, but in most cases it was not possible for clients to draw any conclusions about the concrete sustainability aspects or the climate performance of the respective investment strategy. There was also a noticeably lack of corresponding reporting, making it difficult to assess the level of ambition of the investment strategy and the actual climate performance of the product.

Yet, the goal of this study was not to discredit sustainable investing as a concept. It was to highlight the current weaknesses of the applied practices in order to improve them. To this end, Greenpeace Luxembourg calls upon banks and lawmakers to implement the following measures:

Measures to implement

1. Luxembourg banks must implement MiFID II consistently.
2. Luxembourg banks must promote technical expertise to implement the regulatory requirements within MiFID II.
3. Information materials must be designed in a comprehensible way.
4. Investment approaches of fund products advertised as sustainable must follow an emissions reduction path in line with the Paris climate goals.
5. Financial institutions should refrain from making impact promises about the climate performance of their funds.
6. Asset managers should be transparent about the fact that their information on EU taxonomy compatibility is currently still extremely imprecise.
7. Banks must apply transparent criteria for sustainable and environmentally friendly financial products.
8. As European legislation for sustainable finance has not been able to put a stop to greenwashing in the financial sector, the Luxembourg government must set ambitious requirements for climate-friendly Luxembourgish capital investments.
9. The financial favouring of investment vehicles that are not in line with the Paris climate goals or run counter to other sustainability goals must be stopped.

In terms of what the customers themselves can do, Greenpeace proposes a series of questions to help them navigate their preferred investment approach:

1. Has the fund defined **sustainability criteria that cover all of the securities in its portfolio?**

2. **Does the fund's investment strategy make reference to the Paris Climate Agreement or the EU taxonomy** as an aim with which to align the fund, e.g. by establishing the 1.5 degree target for the entire investment portfolio?

3. Are there **ambitious exclusion criterias** (ideally in line with Paris-compatible scenarios) **for fossil fuel companies, e.g. coal, gas and oil**?

4. Is detailed **information on the design of the sustainable investment approaches available?**

5. Is a **regular report** (ideally once a year) **on the fund's climate performance published?**

6. **Are further exclusion criteria for controversial weapons, armaments, nuclear energy, tobacco, alcohol and violations of the UN Global Compact in place or being considered?**

Greenpeace Luxembourg hopes that this report can shed some light on the state of sustainable investment options available to private investors in Luxembourg and help pave the way for improving the products and the practices for all parties involved.

Time is pressing, given the accelerating pace of global warming. **Greenpeace demands that Luxembourg banks immediately develop and offer products that actually redirect capital into a climate-friendly economy and thus contribute to solving the climate crisis.**

By diverting capital away from polluting companies towards sustainable and innovative business ventures and projects we can fight climate change and **finance the necessary transition towards a society that fosters the future of our planet instead of endangering it.** For this vision to become reality, the financial sector needs to embrace its responsibility as one of the key actors for positive change and commit to true sustainability.

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