Impact Investments – an advisory check at Luxembourg banks

Content

1 Introduction

In the previous year, we conducted a first round of mystery shopping on behalf of Greenpeace Luxembourg, identifying severe weaknesses in both advisory services and product portfolios. This year's mystery shopping focused on a particular category of sustainable finance products, so-called 'impact products', tailored to the needs of sustainable investors who want to generate a positive impact with their capital. Fifteen mystery shoppers conducted a total of 22 consultation sessions at five financial institutions: Banque Internationale à Luxembourg, Banque et Caisse d'Epargne de l'Etat (Spuerkeess), Banque Raiffeisen, BGL BNP Paribas and ING Groep. Following the consultation sessions, questionnaires were filled out, and the responses were analysed by Nextra Consulting. We also assessed the financial products offered during the sessions to ascertain whether they genuinely provide investors with the opportunity to create a positive social or environmental impact with their invested capital.

2 Assessment of the consultation quality

As part of the assessment of the consultation quality, the consultation, as in the previous year, was divided into four phases: appointment scheduling, qualification phase, product presentation, and provision of information.

Scheduling the appointment:

Only about one third of the mystery shoppers were asked for their sustainability preferences while scheduling the appointment. The lack of clarification is problematic, particularly because the respective mystery shoppers were subsequently advised by uninformed bank representatives in various follow-up sessions.

Qualification phase:

In this second phase of the consultation, the advisor inquires about the customer's investment preferences. Only 41 % of the mystery shoppers were asked proactively for their sustainability preferences. Even when this was the case, only 14 % of the conversations that followed included a detailed discussion of the expressed preferences, as the existing MiFID II regulation requires advisors to do. In the case of 41% of mystery shoppers, no further discussion of preferences took place, even after they gave a remark. Compared to the previous year, there was hardly any significant improvement in the discussion of sustainability preferences.

Product presentation:

At least in 82 % of the consultations, one product was offered as a supposed impact product. This result shows that most banks aim to address the demand for positive impact with their product portfolio. At the same time, however, it should be emphasized that in 68 % of the mystery shoppings, it remained unclear how this specific impact is actually generated.

There is obviously a considerable knowledge deficit among bank advisors that should be remedied by appropriate training measures by the banks. Moreover, in every third mystery shopping, a product was marketed as an impact product, which, upon closer examination, did not pursue the investment goal of creating an impact.

Provision of information:

Compared to the previous year, there have been slight improvements in the provision of information. In 86 % of the consultations, information materials on the individual financial products were used as supporting tools. These, in turn, were perceived as helpful by 68 % of the mystery shoppers.

Overall, 68 % of mystery shoppers did not feel enabled to invest according to their sustainability impact preferences.

3 Assessment of the product quality

We analysed 8 products that were offered in the 22 mystery shoppings in detail regarding their investment strategy in the second step of our analysis. This analysis aimed to check whether these products can actually generate the promised impact.

In the first step, we developed, in coordination with Greenpeace Luxembourg, a set of criteria that impact products are required to meet. We distinguished between two types of financial products: Those that generate a genuine impact that would not have existed without the investor's investment and those that invest in companies that have a positive impact and are therefore not impact-generating but at least impact-aligned.

Our analysis showed that of the 8 products claiming to be impact-generating, only two can fulfill the set criteria. One of these was the Luxembourg Microfinance and Development Fund, which invests directly in microfinance institutions that provide small loans mainly in developing countries, thus generating a primarily social impact. Another impact-generating product offered was a Green Bond issued by BIL. It is important to note that this was an initial bond offering, i.e., the bond was introduced to the market for the first time. Consequently, the capital invested went directly to the bank, which used it to finance energy-efficient construction projects.[1]

Most of the products, however, based on the chosen investment approach, were unable to create a quantifiable positive impact despite the frequent indications on the websites of various fund providers.

[1] In the case of this product, it should be emphasized that the purchase of this bond on the secondary market would have resulted in a different valuation.

Even though, apart from the BIL Green Bond, all products analysed had corresponding impact reports, the main criticism were that 1. the sustainability requirements did not generally apply to the entire capital invested, 2. hardly any of the financial institutions provided transparency on the negative impacts of the products, and 3. asset impacts[2] were mostly incorrectly reported as investor impact. In particular, the limited possibilities of impact generation on the secondary market were regularly neglected.

For the private investor, the realization remains that an investment in alleged impact funds, at least in the context of mystery shopping, would generally fail to lead to a measurable positive impact of the capital. Even if this is currently widely presented on the capital market, so-called "Article 9 funds" are not automatically to be understood as a guarantor for a positive impact of the invested capital.

4 Implications

Banks and fund providers:

1. MiFID II must be implemented consistently.
2. Banks should ensure professional expertise for advisory services on sustainable investments.
3. Banks should train their advisors on impact products to avoid false promises regarding retail investors' impact.
4. Fund providers should refrain from making unsubstantiated claims regarding the impact of their funds.
5. Fund providers should report on positive and negative impacts of companies in their investment portfolio.

Regulatory bodies:

1. In order to reduce impact washing, clear guidelines for advertising impact funds should be defined.
2. Misleading advertising should be warned off, and fund providers requested to cease and desist.
3. Investment products should be categorised into impact-generating and impact-aligned products.
4. Fund providers should mandatorily report on net impact (positive and negative impact).

[2] Asset impacts are impacts of the companies, which are not to be mistaken with the impact an investor generates by investing in these companies.