

# **Impact Investments – an advisory check at Luxembourg banks**

Results and implications of a Mystery Shopping

Luxembourg, 25.10.2023





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# 1

## Methodology

Mystery Shopping



# Mystery Shopping

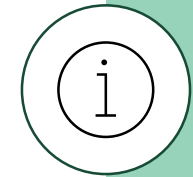
## Methodology Overview

### Mystery Shopping in August and September 2023

- 15 Mystery Shoppers
- 22 consultation interviews
- at different branches of five financial institutions, including
  - Banque Internationale à Luxembourg
  - Banque et Caisse d'Épargne de l'État (Spuerkeess)
  - Banque Raiffeisen
  - BGL BNP Paribas
  - ING Groep

**Mystery Shopping** is a market research instrument:

Test customers or test shoppers who do not identify themselves as such (*Mystery Shoppers*) carry out test purchases on behalf of companies or market research institutes or test service offers, e.g., advisory services.

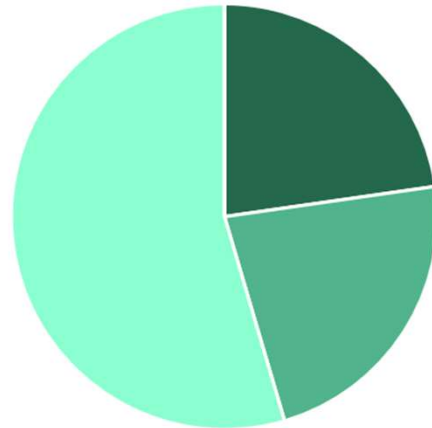


# Mystery Shopping

## Characteristics of the Mystery Shoppers

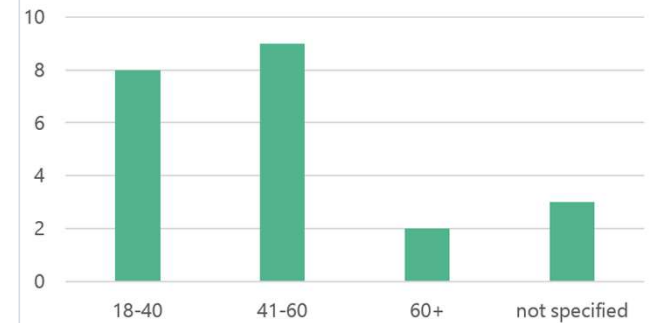


**How would you rate your knowledge of investments in general?  
Please select the most appropriate answer for you.**



- I regularly invest in capital assets and am very familiar with the financial markets.
- I have made my first capital investments and know the financial markets well.
- I have not yet invested in capital assets and am not very familiar with financial markets.
- I have not yet invested in capital assets and have not yet dealt with the financial markets at all.

**Age Distribution Mystery Shoppers**



**Gender Distribution of Mystery Shoppers**



# Mystery Shopping

## Overview – Goals, Procedure and Results



### Goals:

- Assessment of the quality of advice on investments with a positive social or environmental impact
- Assessment of the sustainability of capital investment products advertised as impactful



### Procedure:

- Carrying out a Mystery Shopping at various financial institutions
- Interviewing the mystery shoppers via an online questionnaire and collecting the product suggestions received
- Assessment of the product quality



### Results:

- Qualitative assessment of the quality of advice from the client's perspective
- Qualitative assessment of product quality from an expert perspective



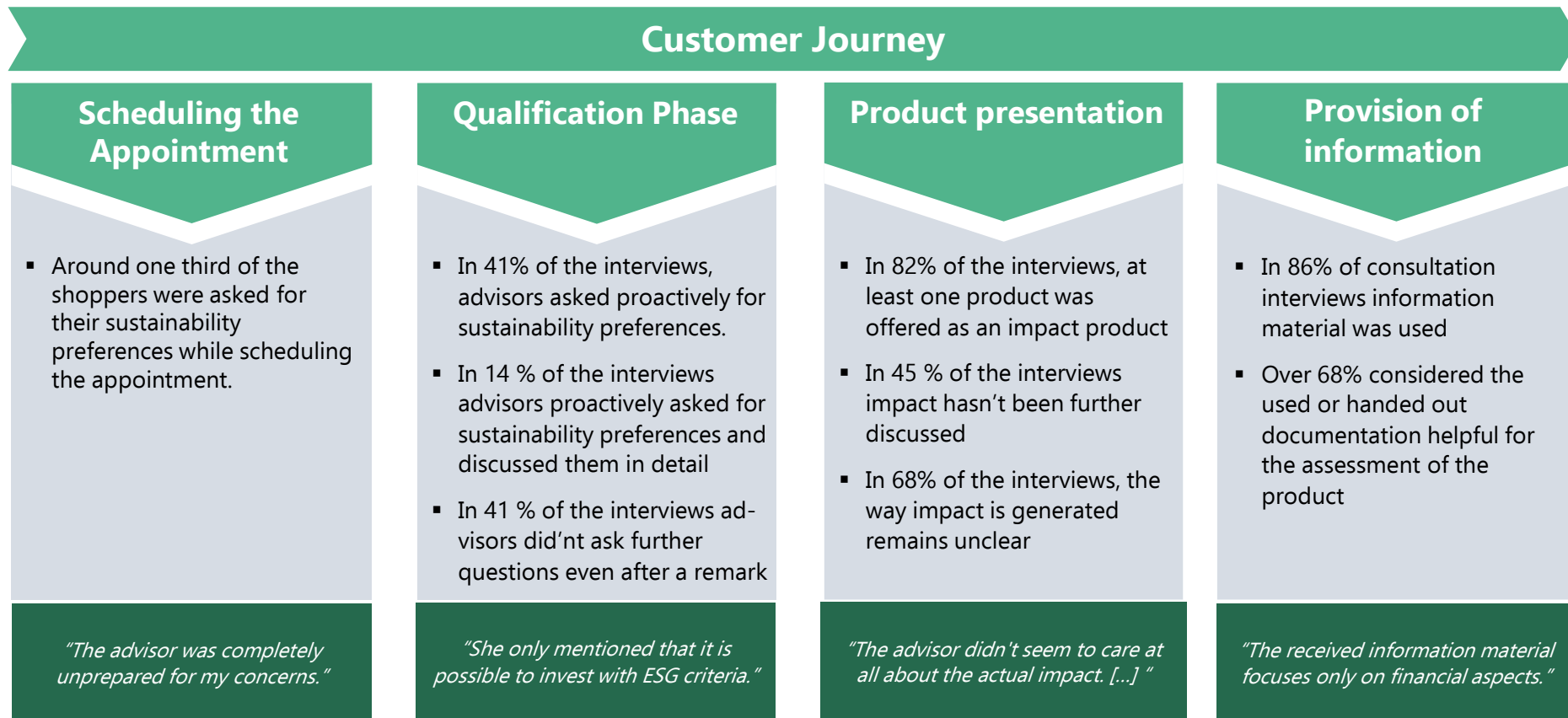
# 2

## Consultation Quality



# Assessment of the consultation quality

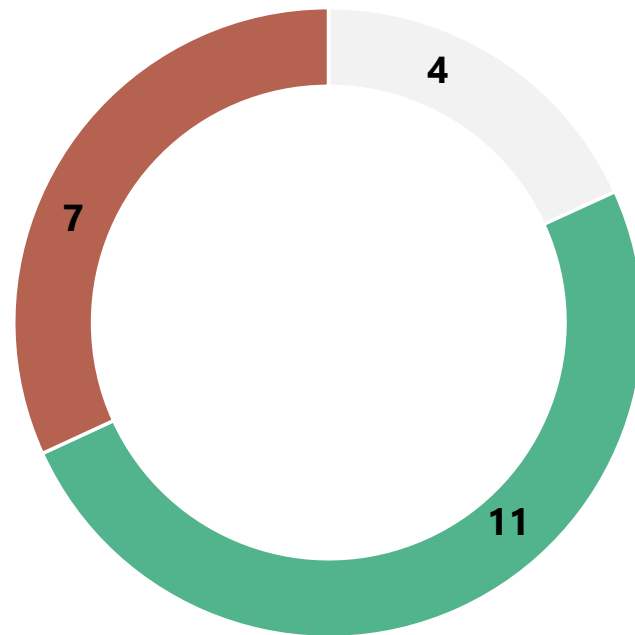
## Results along the customer journey





# Assessment of the consultation quality

## Product presentation



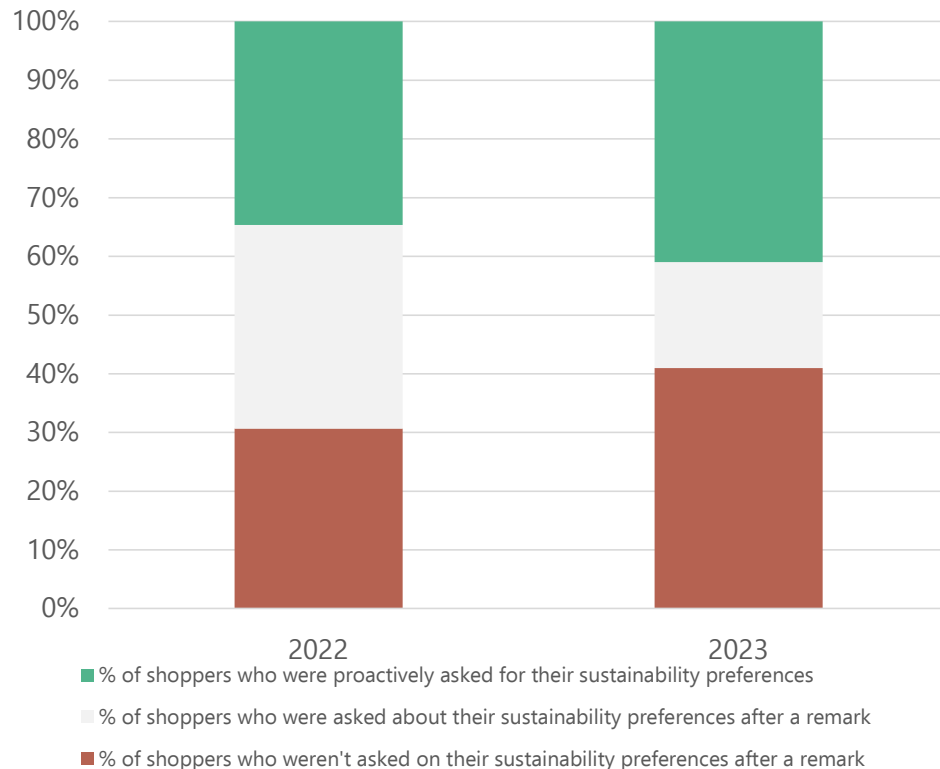
- Offer of other or no funds
- Offer of "True" impact funds
- Offer of other funds marketed as impact funds

- 18 out of 22 mystery shoppers reported to have been offered an impact product
- Only 11 of these 18 products could be confirmed as intended impact products

**In every third mystery shopping, a product was marketed as an impact product that doesn't have the investment goal of creating an impact.**

# Assessment of the consultation quality

## Comparison to Mystery Shopping 2022 - Qualification Phase

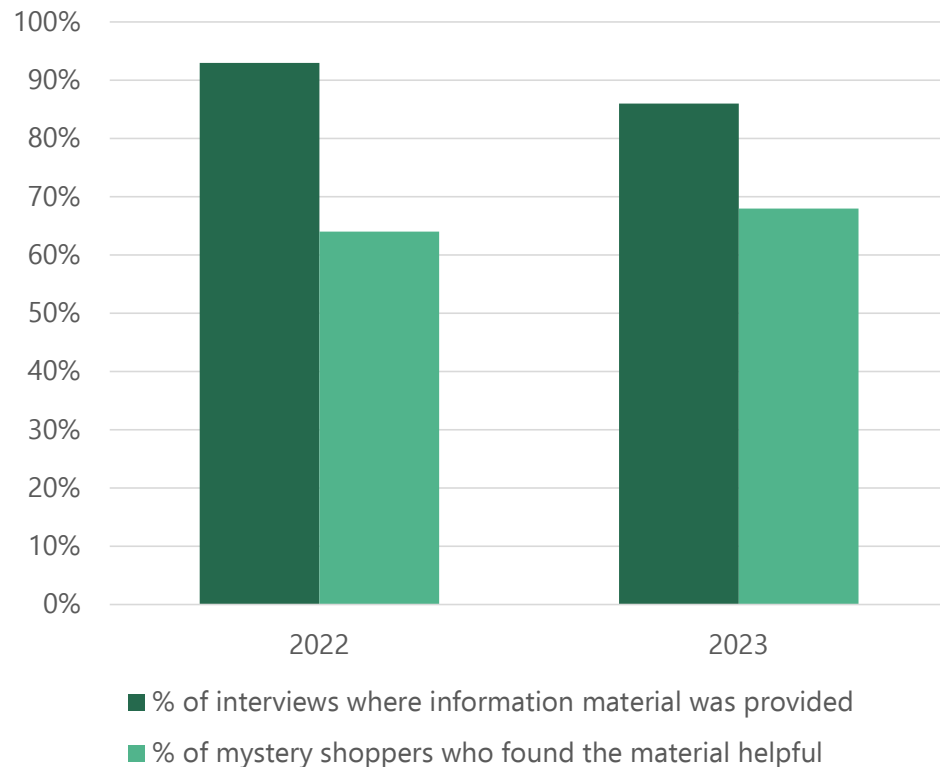


**No improvement on the consultation quality in the qualification phase compared to 2022**

- Increased share of shoppers who weren't asked for their sustainability preferences at all even after a remark
- Share of mystery shoppers who have been proactively asked for their sustainability preferences increased slightly from 35 % in 2022 to 41 % in 2023

# Assessment of the consultation quality

## Comparison to Mystery Shopping 2022 - Provision of Information



### Increase of perceived helpfulness of information material compared to 2022

- Decreased share of interviews contained supporting information material which was given out to the shoppers
- Increased share of shoppers found the material helpful to make an investment decision



# Assessment of the consultation quality

## Conclusion

**Considerable deficits were identified in the provision of advice on impact investments.**

- No specific assigning of clients to bank advisors with expertise in the field of sustainability
- There is still a long way to go before the legal requirements for suitability testing are met
- Lack of advisory competence on Impact investments
- Two thirds of mystery shoppers don't feel enabled to invest according to their sustainability impact preferences



**3**

**Product Quality**





“With the two proposed products you can be sure that your investment will have a positive effect and also an interesting return.”

# Assessment of product quality

## Overview of assessed products

Bank	Fund Provider	Product	ISIN
BGL BNP Paribas	BNP	BNP Paribas Climate Impact CI C	LU0406802339
BGL BNP Paribas	BNP	BNP Paribas Energy Transition C	LU0823414635
Banque Internationale à Luxembourg	BIL	Green Bond	XS2649200511
Banque Raiffeisen	Vontobel	Global Environmental Change	LU0384405600
Banque Raiffeisen	Triodos	Global Equities Impact Fund	LU0785617183
Banque Raiffeisen	Triodos	Impact Mixed Fund	LU0504302604
Banque Raiffeisen	Triodos	Impact Mixed Defensive	LU1956010893
Banque Raiffeisen	Investing for Development SICAV	Luxembourg Microfinance and Development Fund	LU1956010893

- 8 fund products offered as impact products in 22 Mystery Shoppings were analysed in more detail
- We checked Website Information as well as information coming from several documents (e.g., KIID, prospectus, Fact sheets, impact reports, policies, sales presentations and other handouts)





# Impact Investment Products

## Classification System

On the product level, a differentiation between the product categories is made according to the **investment objective**, the pre- and post-**investment strategies** applied, and the scope of **performance measurement**

Impact-generating	Impact-aligned
Contributing to environmental and social solutions	Addressing environmental and social challenges
Primary Market Investments Microfinance Investments Products with a strong Engagement/Voting focus	Stock and Bond market-based funds
Materiality is provided by measuring the <u>further</u> impact that is being generated or will be achieved caused by the investment.	Materiality is provided through detailed descriptions of already realized outputs (e.g. via benchmark analysis)





# Assessment Criteria

## Impact-generating Investments –Top-Level Requirements

	<b>Type of Investment</b>	Primary Market vs. Secondary Market Investments
Technical Evaluation Criteria	<b>Scope of Application</b>	The sustainability criteria apply to 100% of the invested portfolio.
	<b>Net-Impact</b>	Both positive and negative effects for the entire investment portfolio are analysed.
	<b>Strategy of Impact Generation</b>	Specific goals as well as measures to achieve the impact goals are explained.
	<b>Impact Definition</b>	Investor impacts are reported and are to be considered as such.
	<b>Impact Mechanisms</b>	"Strong" mechanisms are named through which impact is to be generated (e.g., primary market investments).
	<b>Measureability (Impact)</b>	The fund explains in a logically, comprehensible and coherent way how investor impact can be made measurable .
Communication	<b>Transparency</b>	Reporting on the current achievement of objectives takes place at regular intervals (at least annually).
	<b>Advertisement</b>	The advertising promises made by the fund provider/bank coincide with the possibilities of a generable impact of the respective financial products and these are referred to in the reporting of the impact target achievement.

# Assessment of product quality

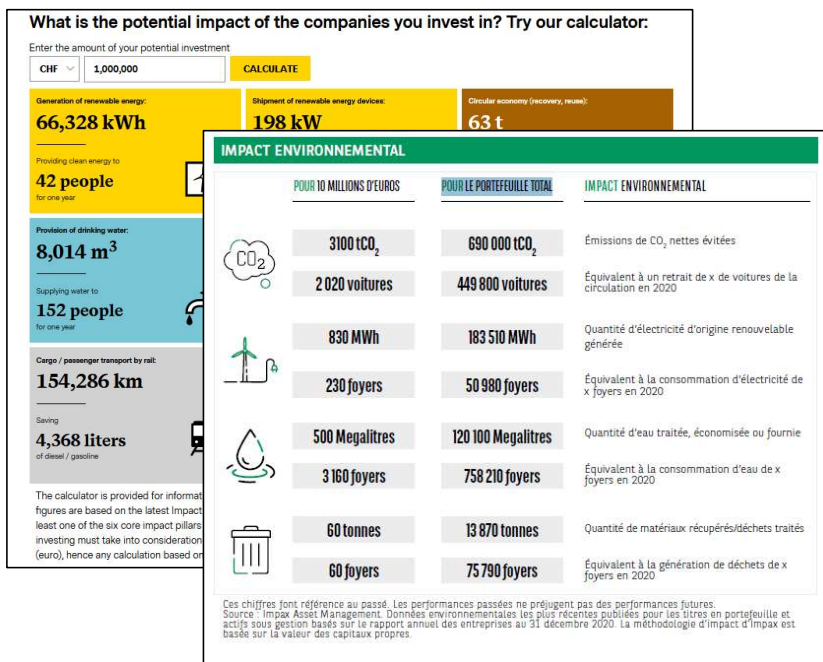
## Overview of Results



Financial Institution	Fund name	ISIN	Type of Investment	Scope of Application	Net-Impact	Strategy of Impact Generation	Impact Definition	Impact Mechanisms	Measurability (Impact)	Transparency	Advertisement
Vontobel	Global Environmental Change	LU0384405600	Stocks	0	2	2	1	2	1	4	0
Triodos	Global Equities Impact Fund (KR cap)	LU1956010893	Stocks	3	1	2	1	2	1	4	1
Triodos	Impact Mixed Fund (Neutral) (R-dis)	LU0504302604	Stocks and Bonds	0	1	2	1	2	1	4	1
Triodos	Impact Mixed Defensive (R cap)	LU1956010893	Stocks and Bonds	0	1	2	1	2	1	3	1
BNP Paribas	Energy Transition (Classic C)	LU0823414635	Stocks	0	2	1	1	2	1	4	0
BNP Paribas	Climate Impact	LU0406802339	Stocks	1	1	1	1	2	1	4	0
Investing for Development SICA V	Luxembourg Microfinance and Development Fund (Share Class C)	LU0456967404	Primary Market Investment	4	4	3	3	4	3	4	4
BIL	Green Bond	XS2649200511	Bond (IBO)	4	0	0	3	4	0	0	0

# Assessment of product quality

## Weakness: Advertising Promises



- It is simply wrong to suggest that an investor's investment in a secondary market fund will provide people with clean energy or drinking water.
- It is also incorrect to say that an investor avoids emissions if he invests in Fund A compared to Fund B

**Funds are exposed to legal risks when they make unverifiable promises of impact!**




# Assessment of product quality

## Conclusion

**With the available information it remains difficult for customers to understand the impact investment approaches and the individual contribution (investor impact) generated**

- The detailed analysis revealed that except for one, products were advertised as impact-generating while either confusing asset impacts or only exercising engagement and voting practices
- Major shortcomings exist regarding the type of investment, as most products only invest in securities on the secondary market
  - only one of the Products analyzed invested directly in the targeted investment on the primary market
- Regulatory activities are having an impact: All funds considered take Principle Adverse Impacts into account and report (asset) impacts in (semi-)annual and impact reports
- BIL Green Bond investment has been considered positive from an impact investor perspective because it was an initial bond offering. Buying those bonds on the secondary market would have led to lower assessment scores



# 4 Implications





# Implications

## Implications for Banks and Fund Providers

1. Luxembourg banks must implement Mi-FID II consistently.
2. Luxembourg banks should ensure professional expertise for advisory services on sustainable investments
3. Banks should train their advisors on impact products to avoid false promises with regard to the retail investors impact
4. Fund Providers should refrain from making promises regarding the impact of their funds.
5. Fund Providers should report on positive and negative impacts of companies in their investment portfolio
6. Banks must apply transparent criteria for sustainable and climate-friendly financial products.



# Implications

## Implications for Regulatory Bodies

1. In order to reduce impact washing on the market, clear guidelines for advertising impact funds should be defined
2. Financial institutions that spread misleading information regarding investor impact should first be warned and ordered to cease and desist
3. Two categories of impact investments should be defined (impact generated and impact compatible) and investment products on the market should be categorized accordingly
4. Fund providers should be obliged to present the net impact in their impact reports and therefore also to report comprehensively on negative impacts.

**NEXTRA**   
**CONSULTING**

**THANK YOU**

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