Investing Responsibly: A Financial Puzzle

The Limited Scope of Sustainable Asset Management

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The financial sector has gone through tough times recently, after it became clear that banks had been taking irresponsible financial risks. This has not only had far-reaching negative consequences for the banks themselves, but also for the global economy and, therefore, for millions of people in both developed and developing countries.

In addition to financial risks, banks are also faced with the environmental, socioeconomic and political risks of their business operations, and for many years stakeholders have been trying to draw attention to this. Corporate Social Responsibility (CSR) is now well recognised in the financial sector in most European countries, with wide-ranging CSR reports and sustainable investment products becoming commonplace.

Research by SOMO into the scope of the CSR policies of a selection of European banks reveals, however, that these policies have serious limitations. In particular, the CSR policies of large banks generally only apply to a very small part of the banks' activities. Transparency regarding the policies applied is often lacking as well: While consumers can choose sustainable investment products at any bank, it is often difficult to determine the extent to which banks apply their CSR policy to their mainstream investment portfolio. This paper aims to contribute to a public debate about a more consistent and transparent application of CSR policies in the financial sector, especially with regard to asset management.

About the research

Earlier research conducted by SOMO into the financial sector drew attention to one specific aspect of the services of financial companies: The application of CSR policies to asset management.[1] For example, despite extensive CSR policies related to investment in weapons, it became clear that banks held shares in manufacturers of cluster munitions. Confronted with this contradiction between policy and practice, banks often respond with the pronouncement that these assets are not held by the bank itself, but are instead managed for its customers. This response provokes a number of fundamental questions: Why does a bank differentiate between its own assets and the assets managed for customers when applying its CSR policy? What is the level of transparency? In other words, are consumers and other external stakeholders aware of the scope of the CSR policy of their bank? Do they know in which companies banks invest? Moreover, for which investments have sustainability criteria been drawn up, and for which not?

This publication centres around these and related questions. It looks in detail at:

- The existence, scope and application of CSR policies with regard to asset management, especially concerning mainstream investment portfolios and the existence and application of concrete exclusion criteria. A distinction is made between assets invested at the expense and risk of the bank and assets managed for third parties, such as institutional investors and private and commercial customers (see paragraph Asset management).
- Transparency concerning these policies and practices.

The research is restricted to information on policies that is publicly available, as transparency is pivotal for a genuine CSR policy. Furthermore, it is acknowledged that the scope of the research is to some extent limited as it does not take into account all policies and practices of banks related to sustainable asset management. For example, proxy voting, engagement strategies and the functioning of sustainable funds are omitted from this study. Exclusion should be seen as a last resort in case of failed engagement or other sustainable asset management strategies. However, insight in these criteria is essential for a well-elaborated CSR strategy concerning asset management.

The study focuses primarily on five large European banks from different EU member states. They are ING Group, RBS Group, Deutsche Bank, BNP Paribas and Santander Group. In order to provide a broader picture of alternatives on the market, two other Dutch banks are included in the study, Triodos Bank and SNS REAAL. Triodos Bank, a rather small bank compared to the others, is a sustainable bank, which is active in the Netherlands, Belgium, Spain and Germany. SNS REAAL is a Dutch financial services provider which primarily offers banking services to consumers and medium and small enterprises. SNS REAAL is included as it has recently started to enhance its investment strategies in terms of sustainability.

The findings in this paper are based on information published on the websites, in the financial annual reports and in the CSR reports of the banks studied. In order to ensure detailed information, SOMO also asked the seven selected banks to provide data by means of an online questionnaire. In addition, a provisional version of this paper was sent to the banks to give them the opportunity to correct any factual inaccuracies. Out of the seven banks, six cooperated and Santander did not.

Asset management

In order to be able to analyse the CSR policy of a bank with regard to investments, it is necessary to have some insights in how banks manage their assets. Banks offer their customers a wide range of investment products, but also invest their own assets. It should be noted that the terminology used for different types of asset management in this paper is not always the same as the terms used by the banks themselves. 'Investments at the expense and risk of the client' can be phrased differently in the banks' terminology. 'Third party assets', 'managed assets', 'managed customer funds' and 'invested assets' are the most common alternatives used by banks. The various forms of asset management are:

- **Investment at the expense and risk of the bank**
  This involves investments in shares, bonds and other securities which the bank realises at its own expense

Services provided by banks

The services of banks can, generally speaking, be categorised as follows:

- *Retail banking,* which relates to the services that banks offer to private individuals and small businesses, such as savings and current accounts, mortgages, personal loans, credit cards, etc.
- Banks use *credit provision* to lend out money to businesses, public sector bodies and also to other banks.
- With *project financing,* banks finance specific long-term projects of businesses or public sector bodies, such as the development of a new copper mine or the construction of a railway or a dam.
- The *investment division* of a bank or an investment bank advises companies and public sector bodies on the issuing of shares or bonds, and assists with mergers and acquisitions.
- *Asset management* is the management, on an individual basis or in collective funds, of assets, for example investments in shares and bonds. The bank does this for the assets it owns itself, but also for the assets it manages for third, private and commercial parties.

Ban on cluster munitions

Worldwide attention to the large number of civilian casualties caused by the use of cluster bombs has put pressure on financial institutions to divest from companies that produce these weapons. The Convention on Cluster Munition was adopted by 107 states on 30 May 2008, and signed in December of that year. It will become binding international law which prohibits all use, stockpiling, production and transfer of Cluster Munitions. Financing the production of cluster munitions can be seen as 'assistance' or 'encouragement', as the convention also points out in its policy paper.[2]

Many countries that have signed the convention are now incorporating it into their national legislation, some by prohibiting investment in cluster munitions.[3] In the Netherlands, a motion in parliament to develop legislation to prohibit investment in cluster munitions was ignored by the executive body of the Dutch government, which considered it would not have added value since pension funds and other financial institutions already do enough to ban investment in cluster bombs. However, large Dutch pension funds disagreed. They called for a ban, arguing that legislation against investing in cluster munitions would be a logical step after the Netherlands signed the convention in 2008.[4] According to the pension funds, to be feasible the ban should meet certain requirements: it should apply to direct investments such as investments in shares and investment funds, but not to indirect investments such as index trackers, a collective investment scheme that replicates the movement of an index of a specific financial market. The Dutch pension funds also stated that 'the government should take its responsibility and lead the way for pension funds in this debate by developing a list of companies in which it is prohibited to invest. The government should also stop doing business with financial institutions that continue to invest in cluster munitions'.

and risk. The income and losses arising from these investments accrue directly to the bank, since the risks of these investments are also borne by the bank. As the bank is the legal owner of these investments, the bank itself determines where the money is invested. One example of an investment at the expense and risk of the bank is when customers deposit money in a savings account at a bank and receive a payment for this in the form of interest. The bank determines an interest rate and the customers are entitled to this interest, irrespective of how the savings are managed by the bank. The bank can lend this money, keep it in reserve or invest it at its own discretion and without the involvement of the clients. Part of the savings money that banks receive from clients is therefore invested. The profits and losses on these investments accrue to the bank. Consequently, regardless of whether the investments result in profit or loss, the customer receives the amount that he/she deposited into the savings account plus the agreed interest.

Investment at the expense and risk of the client

In this case, the bank manages the assets but the risk is borne by the client. In principle, the client determines where the funds are invested and is also the legal owner of the investments. Investment at the expense and risk of the client can take two forms:

- **Individual asset management**
  In the case of individual asset management, an amount of capital is entrusted by a private investor to a bank. The client decides where the money is to be invested or draws up an investment portfolio in consultation with an asset manager of the bank. The investor agrees with the bank on the manner in which the management of the assets takes place and whether the bank can decide on the sale and purchase of assets.
- **Collective asset management**
  Investment funds
  Most private investors invest their money in investment funds offered by banks. These funds consist of a wide range of investments, such as shares, bonds and investments in commodities. Investing in funds makes it possible to create a wide spread of risk with a relatively small amount of money, by purchasing a piece of a larger investment portfolio.

  Institutional investments
  Institutional investors, such as insurance companies or pension funds, also invest their capital. Pension funds invest capital that is paid in by participants, and insurance companies invest the premiums they receive from their clients. Once the premium or the pension payment is collected, pension funds or insurance companies are free to invest this money

however they please. These investments are linked to pension or insurance policies. The participants, all policyholders, do not have any individual influence over the way in which assets are managed.

CSR initiatives in the financial sector

Overall, a great number of CSR initiatives and guidelines have been drawn up that can guide companies in developing their CSR strategies, policies and business practices. Some of these initiatives are sector wide. An example of this is the Global Compact, an initiative of the United Nations, which asks businesses to adopt 10 principles concerning human rights, working conditions, the environment and corruption. If adopted, these principles are applicable to all business activities worldwide. Around 5,300 companies in 130 countries across the world are a member of the Global Compact, including a large number of financial institutions.[4] In addition, there are sector-specific guidelines for the financial industry, for example the Equator Principles. These social and environmental principles relate to project financing by banks for amounts of EUR 10 million or more. Although the Equator Principles are not relevant for asset management, they are included in this study, as they are an important indicator for CSR in the financial sector.

In 2006, the United Nations drew up the Principles for Responsible Investment (UNPRI), which specifically targets asset management. These principles offer a framework for the investment analysis and decision-making processes of investors in the context of Environmental, Social and Governance (ESG) aspects. To date, more than 730 institutions worldwide have signed the UNPRI.[6] The signatory institutions commit to the following six PRI principles:[7]

- To incorporate ESG issues into investment analysis and decision-making processes
- To be active owners and incorporate ESG issues into their ownership policies and practices
- To seek appropriate disclosure on ESG issues from the entities in which they invest
- To promote acceptance and implementation of the Principles within the investment industry
- To work together to enhance their effectiveness in implementing the Principles
- To report on their activities and progress towards implementing the Principles.

The Global Reporting Initiative (GRI) is a network-based organisation that provides a globally applicable framework for sustainability reporting. The framework sets out principles and indicators to measure and report on economic, environmental and social performance. Sector supplements with sector-specific indicators also form part of the framework. The Financial Services Sector Supplement consists of the G3 Guidelines (G3 is the third and latest version of the GRI) and sector-specific content. The following indicators specifically concern elements related to asset management:

- Indicator 10: Percentage and number of companies held in the institution's portfolio with which the reporting organisation has interacted on environmental or social issues
- Indicator 11: Percentage of assets subject to positive and negative environmental or social screening
- Indicator 12: Voting policies applied to environmental or social issues for shares over which the reporting organisation holds the right to vote or advises on voting.

Even though there are numerous other collective initiatives in the field of CSR, this publication is limited to the UN Global Compact, Equator Principles, UNPRI, and the GRI (Financial Sector Supplement), because these are important guidelines for CSR in general, CSR in the financial sector and CSR in the area of asset management.

Banks and CSR

In addition to external guidelines, banks usually also develop company-specific CSR policies and guidelines. Here they translate their involvement in collective initiatives into their own business operations in concrete terms and provide their own vision and business strategy in relation to the environment, people and society. These company-specific CSR policies serve as a point of departure for all the bank's business activities, including asset management. Investing in accordance with the CSR policies of a bank can take place in various ways:[8]

- Based on *negative exclusion criteria*: this involves using criteria which target the total exclusion of investments in certain sectors or business practices which do not coincide with the bank's CSR policy. Examples are the exclusion of the weapons industry or the production of illicit drugs.
- Based on *positive inclusion criteria*: this involves concentrating investment in companies which offer a socially added value in a certain area and lead the way in the implementation of sustainability in their business operations. Examples include businesses and/or industries which focus exclusively on sources of sustainable energy or companies which only trade in certified responsible products.
- Based on *both positive and negative criteria*: harmful sectors or businesses are excluded and the remaining businesses are selected on the basis of absolute or relative performance. The absolute method focuses on the selection of leading companies irrespective of the sector in which a company operates.

Table 1: Asset management in figures, 2009[9]

	ING Group	RBS Group[10]	Deutsche Bank	BNP Paribas	Santander Group	SNS REAAL	Triodos Bank
Total assets (EUR bn)	1163.64	1897.8	1500.7	2057.7	1110.5	128.9	3
Assets under management (EUR bn)	343.2	NR	880[11]	357[12]	1245.4[13]	43	4.9[14]
Third Party Assets (EUR bn)	219.2	728.5	NR[15]	NR	900	12.5	1.9
Proprietary assets (own account)	124	NR	NR	NR[16]	NR	30.5	3
% sustainable funds of total assets	0.74%	NR	1%	2.36%	NR	0.23%[17]	100%
% assets subjected to sustainable screening	NR**	NR	NR	NR	NR	64%[18]	100%

* Figures for the year 2008

** NR – not reporting on figures

Table 2: CSR Policies

	ING Group	RBS Group	Deutsche Bank	BNP Paribas	Santander Group	SNS REAAL	Triodos Bank
UN Global Compact	✔	✔	✔	✔	✔	✔	✕
Equator Principles	✔	✔	✕	✔	✔	✕[19]	✕
UNPRI	✔	✕	✔	✔	✕	✔	✔
GRI	✔	✕	✔	✕	✔	✔	✔
GRI Fin. Services Sector Supplement	✔[20]	✕	✔[21]	✕	✕	✔[22]	✔[23]
Engagement policy	✔[24]	✕	✕	✕	✕	✔	✔
CSR included in voting policy	✔	✕	✕[25]	✕	✕	✔	✔[26]

Legenda: ✔ = yes | ✕ = no

Under the relative or best-in-class method, the best-performing companies in each sector are selected.

- Based on *engagement*: entering into an active dialogue with the management of companies that do not operate in accordance with the bank's CSR policy, in order to encourage them to improve their CSR performance. Often a specific period is agreed upon, within which results must be visible. If a company does not implement improvements it is excluded. Engagement can also take the form of exercising attendance and voting rights at shareholder meetings.

Most banks offer their customers the possibility to put together a sustainable portfolio themselves or to invest in sustainable investment funds. Governments often stimulate certain social investments by offering private investors tax benefits when they invest in green, socio-ethical or cultural funds approved by the government. In addition to these funds, banks offer a large number of sustainable funds, without tax benefits, which they themselves have put together, such as sustainable theme funds that invest in companies operating in a specific field. One example is a climate fund, which invests in companies that generate clean energy. The conditions that sustainable investment funds must meet, the exclusion criteria or other criteria that are applied, and the level of transparency differ from bank to bank.[27]

The scope of the CSR policy

As shown in Table 1, asset management accounts for a big portion of the banks' commercial activities. However, sustainable assets form only a small part of the banks' total assets. Triodos Bank is the only exception, with 100% of their investments being sustainable. With regard to screening, Triodos Bank screens 100% and SNS REAAL 64%[28] of its investments against sustainable criteria. Comparison with the major banks is not possible here, as they do not report on this data.

The limited magnitude of the sustainable asset management that arises out of the figures presented in Table 1 is confirmed by industry-wide statistics. In general, sustainable investments have been rapidly gaining in market share in recent years. In 1995, 55 socially responsible investment funds were active in the United States with assets of USD 12 billion. In 2007, this number had increased to 260 funds with assets of

Table 3: The scope of the banks' CSR policies[29]

	ING Group	RBS Group	Deutsche Bank	BNP Paribas	Santander Group	SNS REAAL	Triodos Bank[30]
A. CSR Policy							
Human rights	✔	✔	✔	✔	✔	✔	✔
Labour rights	✔	✔	✔	✔	✔	✔	✔
Indigenous peoples	✔	✕	✔	✕	✔	✔[31]	✔
Biodiversity	✔	✕	✔	✕	✔	✔	✔
Climate change	✔	✔	✔	✔	✔	✔	✔
Chemicals	✔	✕	✔	✕	✕	✔	✔
Arms	✔	✔	✔	✔	✔	✔	✔
Dams	✕	✕	✔	✕	✕	✕	✔
Fishery	✕	✕	✕	✕	✔	✕	✔
Forestry	✔	✕	✔	✔	✔	✔	✔
Mining	✔	✕	✔	✕	✕	✔[32]	✔
Oil and gas	✔	✕	✔	✕	✔	✔[33]	✔
Agriculture	✔	✕	✔	✕	✔	✕	✔
B. Own assets							
Human rights	✕	✕	✕	✕	✕	✔	–
Labour rights	✕	✕	✕	✕	✕	✔	–
Indigenous peoples	✕	✕	✕	✕	✕	✔	–
Biodiversity	✕	✕	✕	✕	✕	✔	–
Climate change	✕	✕	✕	✕	✕	✔	–
Chemicals	✕	✕	✕	✕	✕	✔	–
Arms	✔	✕	✕	✔	✕	✔	–
Dams	✕	✕	✕	✕	✕	✕	–
Fishery	✕	✕	✕	✕	✕	✕	–
Forestry	✕	✕	✕	✕	✕	✔	–
Mining	✕	✕	✕	✕	✕	✔	–
Oil and gas	✕	✕	✕	✕	✕	✔	–
Agriculture	✕	✕	✕	✕	✕	✕	–
C. Third party assets							
Human rights	✕	✕	✕	✕	✕	✔	✔
Labour rights	✕	✕	✕	✕	✕	✔	✔
Indigenous peoples	✕	✕	✕	✕	✕	✔	✔
Biodiversity	✕	✕	✕	✕	✕	✔	✔
Climate change	✕	✕	✕	✕	✕	✔	✔
Chemicals	✕	✕	✕	✕	✕	✔	✕
Arms	✔	✕	✕	✔[34]	✕	✔	✔
Dams	✕	✕	✕	✕	✕	✕	✔
Fishery	✕	✕	✕	✕	✕	✕	✔
Forestry	✕	✕	✕	✕	✕	✔	✔
Mining	✕	✕	✕	✕	✕	✔	✔
Oil and gas	✕	✕	✕	✕	✕	✕	✔
Agriculture	✕	✕	✕	✕	✕	✕	✔

Legenda: ✔ = yes | ✕ = no | – = not applicable

USD 201.8 billion.[35] As for Europe, figures presented by Eurosif in its European Socially Responsible Investment (SRI) Study for 2008 show that socially responsible investments only represent 3.4% of the European asset management industry.[36] Clearly, the scale of such investments is still extremely limited.

Table 2 provides an overview of the international CSR initiatives that the banks have adopted or apply, and shows whether a bank publishes its annual report according to the guidelines of the Global Reporting Initiative (GRI), whether the Financial Services Sector Supplement is taken into account, whether it has sustainability criteria embedded in its voting policy and whether it has an engagement policy.

With some variation, most banks are aligned with several major CSR initiatives. The GRI Financial Services Sector Supplement has been adopted by Deutsche Bank, ING as well as the two smaller banks. While Triodos Bank and SNS report on the indicators related to asset management, Deutsche Bank and ING chose not to report on this area (Indicator 10, 11 and 12, see paragraph CSR initiatives in the financial sector). ING, SNS REAAL and Triodos Bank have developed an engagement policy and included CSR in their voting policies.

Triodos Bank stated that it had integrated the Global Compact into its founding documents and does not sign international CSR initiatives when their internal policy regarding CSR issues is stricter than such initiatives.

Table 3 provides an overview of thirteen focus areas and sectors related to CSR. The three marked rows indicate:

- **A:** Whether the bank has a company-specific CSR policy or not
- **B:** Whether this policy applies to the investments at the expense and risk of the bank
- **C:** Whether this policy applies to investments undertaken on behalf of third parties.

It should be noted that positive or negative signs in Table 3 do not reveal anything about the quality of the involved CSR policies. They merely indicate that the policy is present in some form in the banks' operating guidelines.

CSR policies adopted by banks can be applicable to some or several of the services mentioned in the box on page 2 (e.g. project finance, credit provision or retail banking) or the banks internal operations like human resources. In short, it is indicated whether a bank does or does not have a CSR policy in a certain area (row A) and whether this policy applies to own investments (row B) or third party investments (row C).[37]

Unsustainable Investments: PetroChina

The Chinese state oil company PetroChina is one of the most important players in the oil industry in Sudan. However, it is also seen as one of the four oil companies that are providing the funds that the government of Sudan needs to continue the genocide in Darfur.[38]

The civil war in Sudan is ongoing and has caused hundreds of thousands of civilian casualties and created millions of refugees in recent years. The Sudanese government is considered jointly responsible for this current humanitarian crisis and has been accused of genocide by the United States. For the Sudanese government, oil is the most important source of income and amounts to 90% of its export revenue. A large part of this income is accordingly being spent on weapons.

PetroChina has already been blacklisted by pension funds, including PFZW (formerly PGGM) in the Netherlands and TIAA-CREF in the US, because of its links to the Sudanese government, whereby it fuels the humanitarian crisis.

In June 2009, the asset managers of BNP Paribas, Deutsche Bank and ING owned or managed shares in PetroChina worth a total value of USD 191.73 million.[39]

Bank	Shares in PetroChina (USD)
Deutsche Bank	129.0 million
BNP Paribas	48.3 million
ING	14.5 million

It is unclear whether these shares are owned by the banks themselves or whether the banks manage these shares for clients. It is therefore impossible for customers to check whether their bank is indirectly involved in human rights violations in Sudan.

Table 3 reveals quite a mixed picture of the scope of the CSR policies of the banks studied. With the exception of RBS Group and BNP Paribas, all of the banks have some kind of CSR policy on most of the thirteen focus areas (row A). Policies on various CSR areas and sectors are mentioned in CSR reports or on the banks' websites; however, the scope is often not explicit.

Rows B and C show that the major European banks often do not apply CSR policies to asset management activities, regardless of whether it concerns the bank's own money or the assets and funds which are managed on behalf of clients. Earlier research by SOMO showed that banks differentiated between assets managed for the bank's own account and assets managed for third parties.[40] However, from the data in rows B and C it is clearly visible that there is currently no explicit CSR policy with regard to the existence and application of concrete exclusion criteria for the assets managers of the five major European banks. Only the arms industry is so evidently and directly connected with unsustainable practices that some banks exclude the arms sector from all its investments. Note, however, that these restrictive policies with respect to the arms sector usually only apply to manufacturers of controversial weapons, such as cluster ammunition or anti-personnel landmines. On other issues, such as human rights and climate change, the major European banks do have their own CSR policy but the criteria do not apply to asset management.

It must be noted that, on its website ING states that it does not invest its assets for own account in companies that are involved in activities that are incommensurable with its own Business Principles and other ING policies such as its policy on arms.[41] And indeed, its arms policy is well elaborated, including clear exclusion criteria. However, a comparable elaboration is absent with regard to other CSR policies. Therefore it remains unclear how this general statement with regard to exclusion has been translated in relation to other topics and sectors in Table 3. SOMO regards this limited clarification to be insufficient as a basis for the statement that CSR related exclusion criteria apply to other assets of ING held in own account. The CSR policies of Triodos Bank and partly also of SNS REAAL reveal a completely different picture. All policies that are implemented for the bank as a whole apply to all activities in which the bank is involved. Investments at the expense and risk of third parties are also assessed using exclusion criteria. In some cases these criteria are so strict that whole sectors are excluded from the banks' investment universe.

All major banks provide very limited transparency on the reach of their CSR policy and, more specifically, whether it applies to their mainstream investment portfolio. The CSR pages of the websites are extensive, but a general outline of the extent to which often broadly formulated statements are incorporated into core activities is lacking. Transparency and accountability in portfolio selection and screening is absent. Deutsche Bank and ING are the only large banks

An unsustainable, but highly transparent bank

In 2006, a new player appeared in the Belgian financial sector: ACE Bank. The bank promoted itself as a bank with no restrictions on its investments, investing in weapons, child labour and companies that violate human rights. The bank claimed to employ a transparent investment policy, publishing a list of all of the companies it invests in, guaranteeing the highest returns on the market due to its investment in the most profitable sectors, e.g. mining, oil and the defence industry.
ACE bank claimed it would be able to do so due to the fact that it invested in developing countries where the rules concerning, for example, environmental impact and labour conditions, are not so strict.
The bank would offer higher rates on returns than the competition by keeping its own wages low and investing in controversial sectors. ACE Bank had a young and dynamic profile, targeting customers for whom arguments for profitability would win over those for corporate accountability.

After a week in operation, the Belgian national supervisory agency for the financial sector, CBFA, decided to shut down the operations of ACE bank. At the press conference that followed, representatives of the bank told the media that ACE Bank was a non-existent, fake bank created by the Belgian NGO Netwerk Vlaanderen. The purpose of the creation of ACE Bank was to attract attention to the responsibilities banks have regarding the type of investment they engage in.
The example of ACE bank shows how little public attention is paid to the investment policies of banks.
It also highlights the fact that transparency is crucial in relation to the way investment activities are conducted.
In the words of Netwerk Vlaanderen: 'the laissez-faire attitude of bank managers is a cynical way of approaching investments (focusing on the highest returns and neglecting the societal impacts), which was brought to the public's attention in a humorous way by the ACE Bank'.[42]

which have adopted the GRI Financial Services Sector Supplement, but even these banks do not report on the indicators related to asset management (see paragraph CSR initiatives in the financial sector). SNS REAAL and Triodos Bank form a positive exception to this practice. SNS REAAL has announced that it plans to upgrade its website in the coming year with more extensive information on responsible investment policies, including exclusion criteria, voting and engagement policies.

Banks' motives for sustainable asset management

The Dutch CSR Platform defines CSR as *'a process whereby a company assumes responsibility, across its entire supply chain, for the social, ecological and economic consequences of the company's activities, reports on these consequences, and constructively engages with stakeholders.'*[43]
The European Union defines CSR as *'a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis.*[44] While there is no generally accepted description of CSR, most definitions emphasise the application of CSR to all business activities.

Why would a bank adopt a CSR policy and, more specifically, why would it want to operate consistently in relation to its own policy? Apart from taking its societal responsibility seriously, the bank can also demonstrate its trustworthiness to its clients and the outside world in general. When a bank formulates a CSR policy and declares that it has integrated it into its daily operations, stakeholders need to know whether these policies also apply to asset management, to the bank's mainstream or sustainable investment portfolio, and whether the money invested is used to produce weapons, destroy an ecosystem or abuse labour rights.

By developing exclusion criteria, banks can guarantee that they are not involved, through their investments, in issues that their CSR policy considers to be controversial. This guarantees a consistent implementation of the bank's policy. On issues that the bank considers sensitive but not controversial, the bank may opt not to exclude the company in question but rather to engage in constructive dialogue with it. Within the framework of such an engagement policy, the bank and the company can agree on a period within which the issue should be resolved. Regular reporting on engagement can help enhance the transparency and trustworthiness of a bank.

All of the banks in this report offer socially responsible investment products, which usually take the form of various types of theme funds or tailor-made investment portfolios created in cooperation with the client. However, when it comes to the question of where an investor can invest, most banks (with the exception of Triodos Bank and SNS REAAL) do not apply strict criteria. Banks often use the argument that it is the client's money that is at stake, so the client can choose where to invest. To some this sounds like a legitimate argument, but it ignores the essence of a consistent and responsible CSR policy. This is also the reason why Triodos Bank and SNS REAAL choose to apply their CSR policies to asset management (for their own assets and third party assets) as well. For all the studied banks, asset management forms an important part of the total business operations. However, ING Group, RBS Group, Deutsche Bank, BNP Paribas and Santander Group did not translate their company-specific CSR policies on the sectors and themes depicted in Table 3 to their asset management activities.

Conclusions and recommendations

Corporate Social Responsibility at banks and other businesses is predominantly based on voluntary self-regulation. Legislation or binding regulations are virtually absent. Banks publish sustainability reports with far-reaching promises concerning the integration of CSR into their core and non-core activities. However, it is of utmost importance that outside stakeholders, such as consumers, citizens and societal organisations, can assess whether banks live up to their CSR-related commitments and objectives. In this respect, accountability and transparency are needed to evaluate whether actual practices accord with the stated policies.
This paper has shown that CSR has indeed found its way into the financial sector, but unfortunately at most of the selected banks CSR policies only apply to a very limited portion of the assets invested. With the exception of Triodos Bank and SNS, the consistent application of CSR policies to mainstream investment portfolios is also almost absent. Moreover, it is extremely difficult to obtain a clear picture of the exact scope of these policies. A consistent CSR policy and transparency are widely regarded as crucial elements to recover trust in the financial sector after the recent turbulent years.

The following points provide a number of recommendations for the improvement of corporate social responsibility in the banking sector:

- Banks should draw up a CSR policy which is applicable to all their activities, including asset management. Only then, CSR is anchored in all the processes and activities. A good CSR policy should be developed for the company as a whole and be applied to all company divisions and activities.
- Within asset management, banks do not differentiate between assets managed for the bank's own account and assets managed for clients, as there are practically no exclusion criteria formulated for either. It is important

though to acknowledge that in case CSR policy is drawn up for asset management, this be done for both types of assets managed, in order to avoid a 'schizophrenic' situation which endangers the credibility of CSR practices.

- At present, the scope of CSR policies remains unclear to external stakeholders. Banks must be totally transparent about the scope of their CSR policies and whether these policies are applicable to asset management. Only then, it is possible for the outside world to know to what extent banks comply with their own CSR policies and standards.

Endnotes

1 For the SOMO researches on asset management, see <http://somo.nl/dossiers-en/sectors/financial/financial/>

2 Cluster Munition Coalition, Investment in Civilian Suffering To Be Halted by Future Cluster Munitions Convention, <http://www.stopclustermunitions.org/wp/wp-content/uploads/2009/09/disinvestment-policy-paper.pdf> (4 June 2010).

3 Belgium adopted legislation to that effect even before the CCM was available for signature. Ireland, Lebanon, Luxemburg, Mexico, New Zealand, Norway and Rwanda have defined such investment as a prohibited form of assistance under the CCM, and Ireland, Luxemburg and New Zealand have passed legislation to that effect. In the Netherlands and Switzerland, motions have been adopted to develop legislation prohibiting investment in cluster munitions in the future. Other parliamentary action is ongoing in Germany.

4 'Pensioenbeleggers, verbiedt investeringen in clusterbom', Telegraaf, 10 May 2010, <http://www.mn-services.nl/portal/page?_pageid=136,3554504&_dad=portal&_schema=PORTAL&p_item_id=6107199> (4 June 2010).

5 For the full list of participants in the Global Compact, see <http://www.unglobalcompact.org/ParticipantsAndStakeholders/index.html>. For a more critical appraisal, see the website <www.globalcompactcritics.org>.

6 For the full list of signatories to the Principles of Responsible Investment (PRI), see http://www.unpri.org/signatories/.

7 PRI Website, The Principles, 'The Principles for Responsible Investment', <http://www.unpri.org/principles> (May 2010).

8 J. van der Voorst and E. van Weperen, 'Duurzaam Sparen en Beleggen in Nederland' (Sustainable Saving and Investment in the Netherlands) 1987-2006, VBDO, July 2007.

9 Information gathered from banks' websites or from the questionnaires filled in by employees of the banks.

10 Figures calculated with EUR/GBP exchange rate of 1.12.

11 Deutsche Bank Asset Management reports Assets under Management equals EUR 496bn as of 31 December 2009. Information provided by email correspondence with Deutsche Bank on 22-07-2010.

12 This figure should be EUR 518 billion if taking into account the assets managed by Fortis Investments.

13 The EUR 1245.4 bn are the 'total managed funds' of the Santader Group, which is composed of the EUR 1110.5 bn total assets together with off-balance sheet mutual and pension funds and managed portfolios. Santander annual report 2009, p. 92.

14 The EUR 4.9 bn are the total assets under management of Triodos Bank, which is composed of the EUR 3 bn total assets together with funds under management with affiliated parties that have not been included in the consolidation. Triodos Bank annual report, p. 2.

15 For Deutsche Bank, the third party assets equal the total assets under management. This is due to the fact that Deutsche Bank does not make a distinction between the bank's own money and client's money as, being an investment bank, investments are their main line of business. Telephone conversation with Deutsche Bank, 28 April 2010.
16 BNP Paribas does not publish its figures on proprietary assets. Phone conversation with BNP Paribas, 1 July 2010.
17 Percentage of sustainable funds or theme funds, calculated from information provided by SNS AM email correspondence. Email correspondence SNS REAAL, 5 July 2010.
18 See note 17.
19 SNS REAAL has not signed the Equator Principles as it does not issue credit that falls into the category of the principles, but ASN Bank, which is part of SNS REAAL has done so.
20 ING website, 'Global Reporting Initiative (GRI) Index', <http://www.ingforsomethingbetter.com/nl/publications/gri_index/> (21/07/2010)
21 The Deutsche Bank includes the financial services sector supplement of the GRI, but does not report on the indicators related to asset management mentioned.
22 Including the asset management indicators mentioned. SNS REAAL website, GRI, 'Global Reporting Initiative (GRI) Index' http://www.snsreaalverantwoordondernemenjaarverslag2008.nl/gri/?L=0&tx_sns_pi24[level1]=16#112 (June 2010)
23 Including the asset management indicators mentioned.
24 ING website, 'Embedding CSR into core business' <http://www.ing.com/group/showdoc.jsp?menopt=inslvew&docid=074383_NLNLNL (June 2010).
25 Deutsche Bank is in the process of including CSR criteria in its voting policy. The scope and timeframe is not specified. Deutsche Bank's response to the draft version of this paper, email Deutsche Bank, Group Sustainability, 20 July 2010.
26 Triodos Bank has an extensive voting policy, for details see: <http://www.triodos.com/com/triodos_research/215857/216034/proxy_voting_2010/>.
27 For a critical look at sustainable investment funds, see the report by Netwerk Vlaanderen, 'Beleggers op hete kolen' (Investors on Hot Coals), May 2008, <http://www.netwerkvlaanderen.be/nl/files/documenten/publicaties/dossiers/klimaatdossier.pdf>.
28 In 2009, 94% of the investments by SNS Asset Management were screened against the criteria laid down in the Fundamental Investment Principles (FIP) of SNS Asset Management. In the same year SNS REAAL acquired Zwitserleven Asset Management, bringing this percentage down to 64%. The integration of the SNS Asset Management into the newly acquired funds will be finalized in the course of 2010. SNS REAAL's response to a draft version of this paper, , email SNS REAAL, 29 June 2010.
29 Data are based on figures from CSR reports and responses from the questionnaires.
30 Triodos Bank does not invest on its own account. Therefore row B is not applicable.
31 SNS REAAL does have an internal policy on this issue, these are embedded in SNS AM's Fundamental Investment Principles. Some of these principles can be accessed on the bank's website <http://www.snsam.nl/index.asp?NID=7622> others are only available on request. As for the sectors, 'indigenous peoples', 'mining' and 'oil and gas', there are internal policy papers which are not yet publicly available. In the course of 2010, SNS REAAL will publish these online. Source: questionnaire.
32 Ibid.
33 Ibid.
34 The current policy applies to all investments except trackers, Email contact BNP Paribas – SOMO, 27/07/2010
35 Social Investment Forum website, Socially Responsible Investing Basics for Individuals, SRI Facts, 'Socially Responsible Investing Facts', <http://www.socialinvest.org/resources/sriguide/srifacts.cfm> (June 2010).
36 Eurosif, European SRI Study 2008, p. 10.
37 There can be some differences between the banks studied with regard to details within a policy domain or the existence of accurate and measurable targets.
38 Investors against genocide website, Learn more, 'Problem companies', no date, <http://investorsagainstgenocide.net/problemcompanies> (02/06/2010).
39 'Harmful investments by BNP Paribas', June 2009, Banksecrets publication, http://www.banksecrets.eu/pdf/3_profielBNPParibasEN.pdf (01/07/2010). Based on information from the Thomson Reuters Database.
40 See note 1.
41 ING website, ING for Something Better, Finance and Investment Policies, Proprietary Assets, <http://www.ingforsomethingbetter.com/nl/our_story/business/finance_and_investment_policies/proprietary_assets/>, (September 2010)
42 ACE Bank website, Persberichten, <http://www.ace-bank.eu/press5_nl.pdf> (15 July 2010).
43 See the MVO platform CSR reference framework: MVO platform website, Publications, 'CSR Frame of Reference 2007' <http://mvoplatform.nl/publications-en/Publication_2758/>.
44 European Commission website, Enterprise and Industry, Policies, Sustainable and responsible business, 'Corporate Social Responsibility', <http://ec.europa.eu/enterprise/policies/sustainable-business/corporate-social-responsibility/index_en.htm> (June 2010).

Colophon

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