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# **Marketing of Socially Responsible Investments (SRI) to retail clients:**

**Case study analysis of Dexia and KBC**

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## Introduction

Investors are increasingly looking for long-term security and they want to know where their money is going. Particularly since the financial crisis in 2008, there are a growing number of investors seeking to stimulate the economic recovery in a more sustainable way and Socially Responsible Investing (SRI) is gaining popularity around the world. Sustainable investments in green tech, social enterprises and microfinance can contribute to tackling the world's most crucial crises such as climate change and poverty. Moreover, climate change has become a real mega-trend for investors due to the growing potential of carbon markets, clean energy technologies and new solutions to world's water problems. In addition, environmental disasters like Deepwater Horizon in the Gulf of Mexico by BP have made investors aware of the need to integrate Environmental, Social and Governance (ESG) issues into investment decisions and think about their long term financial goals (Krosinsky & Robins 2008, p. 6-7).

SRI has never grown as fast. The value of SRI funds in Europe has increased by 41 % in 2010, now accounting for 75 billion of € (Vigeo 2010). In the US, the phenomenon is similar and SRI funds accounted for 2.51 trillion \$ in 2010 (Socially Investment Forum Foundation 2010).

SRI is a constantly growing and changing concept. At present, no official definition exists for SRI as an increasing number of financial institutions continue to develop new approaches and methods in analyzing and integrating the ESG issues into fund management. Although definitions are overlapping, generally SRI is a form of investment incorporating one or more of social, environmental, governance and/or ethical criteria into investment decisions in addition to traditional financial criteria (Sandberg & Juravle 2009). Most SRI funds avoid investing in companies having controversial activities such as producing or selling addictive substances (alcohol, gambling and tobacco) or having activities related to production of weapons (Social Investment Forum 2011). SRI investors have two main goals: they want to gain long term return in their investment and at the same time invest in sustainable companies meeting the ESG criteria (Eurosif 2010a).

The type of SRI funds we know today have existed since early 1960's, but SRI typically have never called the attention of investors as they have been criticized for their relatively small impact on companies' sustainability practices and low profitability (Robson & Wakefield 2007). Nevertheless, recent studies (Jo etc. 2010) show that investors are ready to accept lower return in order to comply with Corporate Social Responsibility standards and SRI has grown considerably over the recent years. Moreover, recent studies have proven SRI funds are as profitable as non-SRI funds (Krosinsky & Robins 2008, p.19-30; Asset Management working group of UN, Mercer Consulting 2007).

As suppliers of financial services, banks are playing an important role in changing individual behavior into a more sustainable direction. Although today, a growing number of banks are launching SRI products, they still promote these products rather reactively and are criticized for thinking mainly about short term profit and for offering customers non-SRI funds (Wine 2009).

Recent studies show there is still a lot of work to be done before SRI can become a mainstream investment approach. Current challenges are the low penetration among retail clients, the low advertising and the high complexity of SRI products (ORSE 2009). SRI investors need more transparency and also want banks to promote SRI more proactively (Caron 2010). In Belgium, the consumer research company *Test Aankoop* made mystery visits to 38 bank branches in Ghent in 2007. The study revealed that financial advisors' knowledge on SRI products is inadequate and that in many cases wrong information was given to clients (Test Aankoop 2008).

Stanislas Dupré, a specialist in sustainable development and the author of the book *Que font-ils de notre argent?*, criticized financial institutions' policy on SRI :

*"(banks) include conventional indices, consisting of a fixed panel of industries, including oil and aerospace, which are known to participate significantly to climate disruption. As for the "green funds", despite of their similar financial performance, they are not promoted by the financial institutions as they emerge from the "standard" products and require more explanation,"<sup>1</sup>*

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<sup>1</sup>Stanislas Dupré: Développement durable : ce que les banques doivent encore accomplir. 23 November 2010. <http://www.zegreenweb.com/sinformer/politique-societe/developpement-durable-ce-que-les-banques-doivent-encore-accomplir,18651>.

In Belgium, there are currently **288 SRI products**<sup>2</sup>. Nevertheless, merely 6.67% of the total assets under management in Belgium are SRI (BEAMA 2011). The majority of these SRI funds (72 %) are owned by institutional investors. Retail assets account 28 % of the SRI funds in Belgium. Moreover, the retail market has grown by a quarter since 2007, proving to be a dynamic segment of the Belgian market. The demand from retail investors increased significantly in Europe between 2008 and 2009 and this trend is expected to continue, especially in Belgium (Eurosif 2010a).

The aim of this paper is to find out, how banks are currently marketing their SRI products to retail clients. The study concentrates on two banks, Dexia and KBC, the leaders of the SRI market with markets shares of 22 % and 56 % respectively, and at the same time among the four biggest retail banks in Belgium (Réseau Financement Alternatif 2010).

Firstly, we want to find out how the banks define and select their **SRI products**. Secondly, we want to know how banks are **promoting** their SRI products: which channels are used and what kind of information is provided to customers. Finally, since **financial advisors** at the local branches have an important role in convincing and in explaining the content of financial products for retail clients, we want to find out how banks' marketing communication on SRI products corresponds to reality; how is the face-to-face sale of SRI products corresponding to what banks are actually saying about SRI products?

The empirical analysis consists of interviews with marketing specialist of SRI in Dexia and KBC. In addition, five mystery shopping visits were made to local branches of each bank in order to test the marketing of SRI in practice. The method is based on the research made by *Test Aankoop* in 2007. Finally, external information such as websites, annual- and sustainable reports were analyzed.

The structure of the thesis consists of three main parts. The first part underlines the key concepts of SRI: definition of SRI and its evolution during the last decades until today. The second part looks into the particularities of marketing of financial services. The classic product marketing

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<sup>2</sup> In the end of 2009: see Réseau financement Alternatif 2010.

strategies concentrate on the four important elements: product, price, place and promotion. This approach is known as 4P (Lovelock etc. 2007). Nevertheless, in service marketing, three more elements are added: physical evidence, people and process. Out of those 7 Ps in total, the following three: **product, promotion and people** are presented in more detail as they are the most important regarding the research questions. Finally, we look into the best practices of marketing SRI and the current situation of SRI within the Belgian market. The third part of the thesis reports the results of the empirical analysis: Firstly, the cases Dexia and KBD are introduced. Secondly, the marketing methods of SRI in the two banks are analyzed based on interviews and analysis of web sites of Dexia and KBC. Finally, we report the result of the mystery visits to five local branches of each bank and conclude the findings of the research.

## ***First Part: Socially responsible investment in financial institutions***

The first part explains the key definitions of socially responsible investment, the evolution of SRI during the last decades until today, as well as the selection procedure of SRI in financial institutions.

### **1. The key concepts of socially responsible investing**

The first chapter presents the definitions objectives related to SRI, its performance and the main strategies incorporating ESG issues into sustainable investment strategies.

#### **1.1. Definition and objectives**

Social investing, socially responsible investing, ethical investing, socially aware investing, socially conscious investing, green investing, value based investing or mission based investing. Since today, no official definition exists for SRI. The concept is in constant evolution as new actors and approaches appear on the market. The terminology, strategy and practice of SRI also vary among different countries due to cultural and ideological differences between regions, different values and norms of stakeholders and the market settings of SRI (Sandberg & Juravle 2009).

Whereas conventional funds are evaluated based on only financial criteria, the SRI funds are screened considering one or more of the environment, social and governance (ESG) criteria. Up to date, there exist no definitive list of ESG criteria, but in general it is about evaluating corporate behavior by considering non-financial criteria, long-term time horizon, qualitative objectives, company externalities, risks arising from company supply chain and general public concerns such as poverty, child labor and climate change. By taking into consideration the ESG criteria, investors aim to contribute to sustainable company activities and promote a change towards sustainable development (Krosinsky & Robins 2008, p. xiii).

As new sustainable actors and institutions have emerged in the SRI market, SRI has begun to stand for sustainable and responsible investing instead of socially responsible investing. This new name underlines the difference between SRI and ethical investing, which is defined as an

investment approach driven by the internal value system of the investor. Ethical investing is often referred to traditional socially responsible investing applied by charities and foundations having rather social than financial mission. Sustainable and responsible investing on the contrary focuses on external facts and realities of the economy and aims to reduce risks while creating a long term value by respecting the ESG criteria (Krosinsky & Robins 2008, p. 213-114).

## **1.2. Performance of SRI**

Historically SRI was considered non-profitable as fund managers had less strategic options in their investment universes after applying the ESG criteria. However, recent studies show that SRI can be as profitable as “mainstream” investments and today more and more investment professionals around the world consider that ESG issues have a positive impact on the performance of investment portfolios. Study by consultancy Mercer and United Nations in 2007 summarizes the current academic research concerning the influence of ethical screening on investment returns. Altogether 36 different research papers were studied and 20 of them showed clear positive links between the ESG factors and financial performance and only three showing a clear negative relationship (Asset management working group of UN, Mercer Consulting 2007). Moreover, research by Krosinsky & Robins (2008, p. 19-30) found out that sustainable funds outperformed mainstream indices in the five years period between 2002 and 2007 with an average return of 18.7 % compared to S&P return of 13.2 % and MSCI return of 17% in the same period. Moreover, “green” SRI funds concentrating on certain ecological theme such as clean-tech and climate change had an average return of 22.5 % over the five years. Therefore, in addition to contributing to the world’s sustainability, SRI investors could also have another motivation as those funds have proven to be very profitable (Krosinsky & Robins 2008, p. 19-30).

## **1.3. Main strategies of SRI**

According to Loiselet (2000), the means to attain the objectives of SRI can be divided in three main strategies:

- Socially responsible funds based on multi-criteria screening
- Solidarity investing (Community investing)
- Shareholder activism

**Socially responsible funds** invest in companies, which are evaluated by screening methods such as positive criteria or exclusion criteria. The purpose of the positive criteria is to maximize the financial return and social good by investing in companies contributing to environmental policies and social development of the community. Conversely, companies harming individuals or the environment are excluded from SRI investment universes.

**Solidarity investing** means that part of the gain or the total gain is invested in activities with public interest. The goals of solidarity investing are various: capital can be provided for people who cannot access to conventional banking services due to poor living conditions. Money is particularly invested in community development funds contributing to local living conditions or development of local PMEs. The solidarity approach is criticized as an investment approach, as the investor itself loses the majority of the profit in order to help others.

**Shareholder activism** means that shareholders are actively taking part in company management through their voting right. In other words, shareholders are in continuous dialogue with the company direction regarding their sustainable policies and using their voting right in favor of these policies. The goal is to make the company direction to adopt more sustainable management style and consider all the internal and the external stakeholders of the company (Loiselet 2000).

This study concentrates mainly on the first strategy of SRI based on multi-criteria screening as majority (92.7%) of SRI products in Belgium are based on this strategy (Réseau Financement Alternatif 2010).

## **2. Short history of SRI**

This chapter focuses on the history and development screening strategies of SRI. As a concept SRI is relatively young and constantly developing, but its roots date back many hundreds of years. The evolution of different screening methods of SRI can be divided in four generations corresponding to the development of SRI in time. Nevertheless, development of SRI varies across countries and today funds from different generations may co-exist (Loiselet 2000; Louche 2004, p. 158). The four generations are globally recognized and still used in categorizing SRI funds by international rating agencies (Ethibel 2003; Observatoire de la Finance 2006).

## **2.1. First generation: exclusion criteria**

The origins of socially responsible investing date in the 1700<sup>th</sup> century, when it began as a religious movement in the Anglo-Saxon countries. In biblical times, Jewish had laws and directives on how to invest ethically. Also Methodists considered the use of money the second important lesson from the New Testament. The Quakers in the United States refused to invest in weapons and slavery. For generations, religious investors promoting non-violence and peace avoided investing in firms producing weapons and “sin stocks”, i.e. companies involved in alcohol, tobacco and gaming industries (Loiselet 2000; Louche 2004, p. 144).

The first socially responsible fund, the Boston Pioneer Fund, was launched in 1928 in the US due to growing demand of religious movements. The fund excludes all the companies having activities with alcohol, tobacco, casinos, gambling and pornography. Similarly in Europe, the first SRI funds were initiated by church organizations and religious movements in 1900s (Loiselet 2000).

The **first generation** SRI funds, based only on simple exclusion criteria i.e. negative criteria, were born in this period. In practice, companies having controversial activities, products or services are excluded from the investment portfolio. The exclusion criteria can be global excluding certain sectors or geographic areas or specific, excluding companies that have more than 10 % of their revenues coming from production of weapons or nuclear energy (Ethibel 2003).

## **2.2. Second generation: positive screening criteria**

The modern socially responsible investing emerged in the US in the 1960s and in Europe the first SRI funds were launched in 1980s. The period was particularly characterized by anti-Vietnam war movement. The Pax World Fund by the Methodist excluded all the activities producing anything related to the War and the same principle was adopted by the Council on Economic securities (CEP). In addition, many social and environmental movements promoting management and labor issues, equality of women and anti-nuclear sentiments emerged. In 1970, SRI aroused more attention due to Apartheid in South Africa when social investors and institutions refused to invest in companies doing business in South Africa and started to pressure firms to withdraw from the country (Loiselet 2000).

In this period, investors started to demand action from companies and governments in order to promote change in the society, instead of only avoiding investing in certain industries based on exclusion criteria. The **second generation** SRI funds are based on positive criteria addressing specific sectors or themes. Money is invested exclusively in companies performing well in a specific field of sustainable development, for example renewable energies or production of sustainable products. Positive screening is often based on only one or few sustainability criteria, but companies are expected to respect the environmental and social aspects in the general company policy (Loiselet 2000; Louche 2004, p. 158-159).

### **2.3. Third generation: overall social responsibility**

In 1990, the role of companies as sustainability actors became more and more evident and new interest in SRI emerged. Environmental screens became tighter. The Coalition for Environmentally Responsible Economies (CERES) principles were launched in 1992 to evaluate companies overall environmental performance. Also animal testing screens and environmentally beneficial products started to interest investors (Domini etc. 1993). In addition to traditional reporting criteria, companies had to take into account the environmental, social and economic aspects. This approach is also known as a Triple Bottom Line -Planet, People and Profit approach. Moreover, financial performance became as important criterion as the sustainability of SRI funds (Elkington 1999).

Compared to second generation SRI funds, the **third generation** funds invest in companies fulfilling the overall criteria of sustainability considering leadership's strategies and relationship with stakeholders: environment, employees, community, suppliers and shareholders. Instead of concentrating on what companies "should" do, the generation criteria select the "best-in-class" companies of each sector (Louche 2004, p. 160-161). Today the criteria seem to be widely known as the ESG criteria.

### **2.4. Fourth generation: shareholder activism**

The **fourth generation** is the most recent screening method of SRI funds. Shareholder activism was born in order to pressure the company direction. Corporate scandals such as Enron made stakeholders to require more transparency in corporate governance and to initiate new codes and laws improving the corporate governance practices. In addition to respecting the overall criteria

of sustainability, the quality of evaluation is improved by emphasizing transparency and communication with stakeholders. The method is also called a multi-stakeholder approach. The stakeholders are all the people involved with the company- directly or indirectly: shareholders, company managers, employees, trade unions, customers, suppliers, people living near the company, members of environmental, peace or third world organizations, etc. (Ethibel 2003; Loiselet 2000). The four generations are resumed in the figure 1:

**Figure 1: The four generations**



## 2.5. The four generations today

Today funds from different generations co-exist. The amount of fourth generation funds rises every year. Many of the first and the second generation funds in Belgium have been converted into third and fourth generation funds (Ethibel 2003). In addition, new screening approaches and categorizations of SRI have appeared in the market in order to standardize different screening methods among countries. These differences will be discussed in more detail in the chapter 4.3.

## 3. Socially responsible investing today

This chapter looks into the global growth of SRI as well as to the global initiatives seeking to build a frame for the complex concept of SRI.

### 3.1. Global growth of SRI

SRI funds have grown significantly in Europe and in the US over the last decade.

As the figure 2 shows, the amount of SRI funds has risen sharply during the last years in the US. The total amount of SRI assets incorporating ESG into investment analysis was valued 2.51 \$ trillion in 2010. Altogether, including shareholder activism and community (solidarity) investing, SRI accounted for 3.07 \$ trillion (Social Investment Forum 2010).

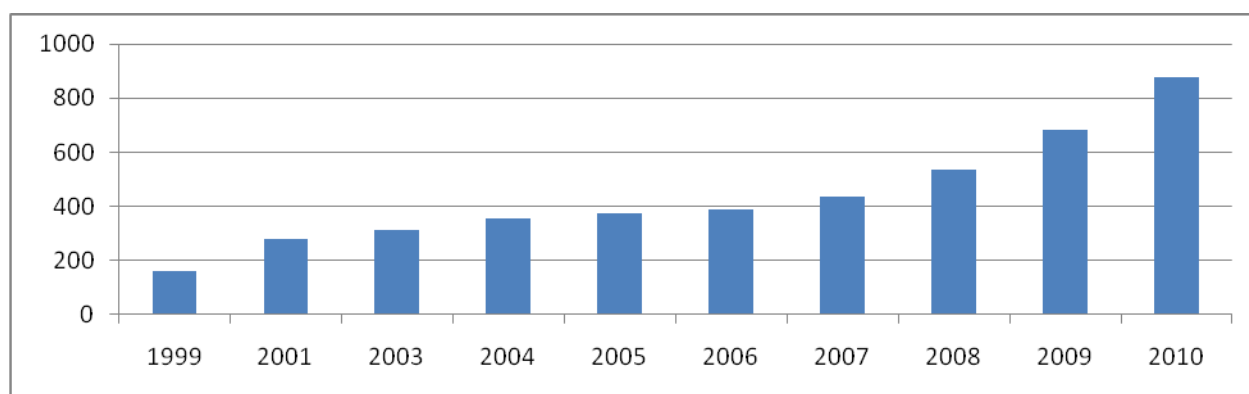
**Figure 2: Investment Funds Incorporating ESG Factors in the USA 2001–2010 (trillion \$)**

	2001	2003	2005	2007	2010
SRI funds	\$2,010	\$2,143	\$1,685	\$2,098	<b>\$2,512</b>
Shareholder activism	\$897	\$448	\$703	\$739	<b>\$1,497</b>
Community investing	\$8	\$14	\$20	\$25	<b>\$41.7</b>
Overlapping strategies	(\$592)	(\$441)	(\$117)	(\$151)	<b>(\$981.18)</b>
<b>Total</b>	<b>\$2,323</b>	<b>\$2,164</b>	<b>\$2,290</b>	<b>\$2,711</b>	<b>\$3,069</b>

Source: Social Investment Forum 2010: Report on SRI trends in USA 2010

In Europe, there were 879 green, social and ethical funds in June 2010 (figure 3). The number of SRI funds increased about 27% between 2008 and 2009 and 29 % between 2009 and 2010. SRI funds have never grown as fast since 2001. In terms of value, the SRI assets under management grew by 41% between 2009 and 2010, now reaching 75 billion of Euros (Vigeo 2010b).

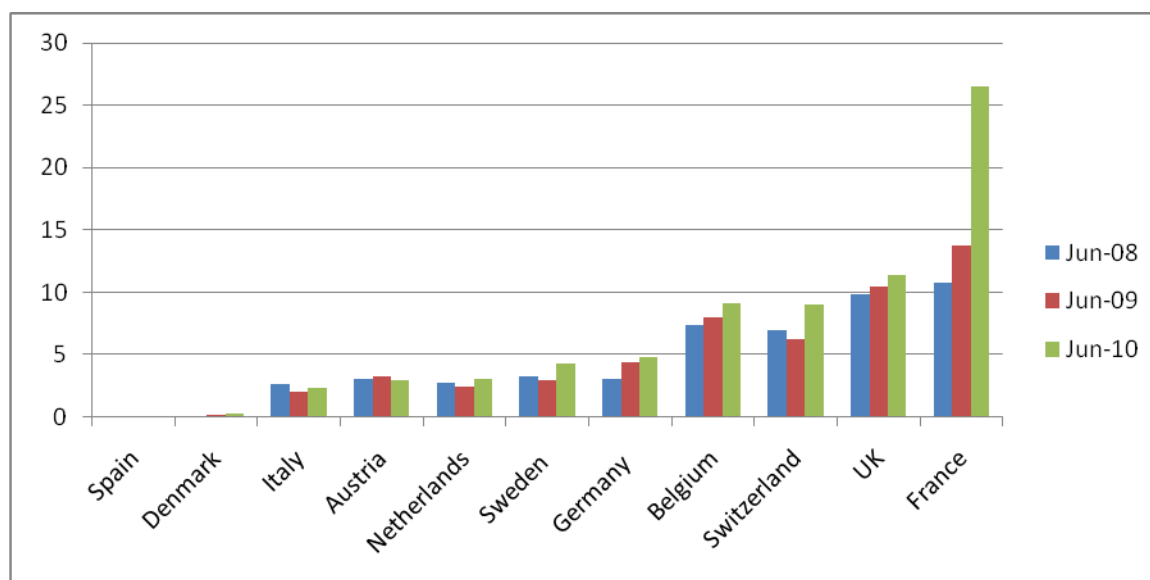
**Figure 3: number of SRI funds in Europe**



Source: Vigeo 2010b, the Green, Social and Ethical funds in Europe

The growth in volume has been fastest in France, Belgium, UK and Switzerland, accounting for 72% of total SRI funds in Europe (figure 4). Those countries also lead the growth in value, accounting for 76 % of the European SRI assets. SRI has continued to grow despite of the financial crisis in 2008. In the leading countries, UK and France, the growth is much due to legislative initiatives promoting sustainable investing and maturity of the market (Vigeo 2010b).

**Figure 4: The growth of SRI funds per country (billions of €)**



Source :Vigeo 2010b, the Green, Social and Ethical funds in Europe

### 3.2. Minimal norm for SRI?

As recent studies show, SRI has grown significantly over the last decade and especially during the last couple of years. Nevertheless, definitions of SRI vary a lot across countries and no common concept exists for SRI. In order to develop in the long term, governmental support and social debate on the political level is needed to promote SRI (Sapir 2009). Consequently, several initiatives by national and international organizations seek to build a transparent framework for SRI and make financial institutions consider sustainability in their investment activities.

In July 2000, United Nation launched the *Global Compact*, inviting companies to commit in their operations and strategies to ten universally accepted principles (appendix 1) in the areas of human

rights, labor conditions, environment and anti-corruption (United Nations Global Compact 2011). Today the ten principles are integrated in financial institutions' sustainable investment policies.

In 2005, the United Nations together with and international investors' network established a framework for responsible investing: *The Principles of Responsible Investing* are based on the ESG criteria encouraging companies to improve their ESG disclosure and performance and integration of the ESG criteria in the company analyses. The framework is mainly targeted for institutional investors and signing means a real commitment to consider the ESG criteria in the whole investment business (UN PRI 2011).

*“These Principles grew out of the understanding that while finance fuels the global economy, investment decision-making does not sufficiently reflect environmental, social and corporate governance considerations – or put another way, the tenets of sustainable development,” -Kofi Annan.*<sup>3</sup>

In addition, financial industry launched a voluntary set of standards, the *Equator Principles* in June 2003. The signing institutions commit to finance only projects that are developed in a socially responsible manner and reflect sound environmental management practices (Equator Principles 2006).

In 2004, Eurosif<sup>4</sup> published *The European Transparency Code* for SRI. The goal of the code is to improve transparency and accountability of SRI funds for retail clients. The code provides a structured tool for fund managers to improve the clarity and transparency of their SRI approach. Signed parties commit to deliver detailed information regarding SRI Management Company, SRI funds' purpose and ESG criteria, ESG research process, engagement and voting policies (Eurosif 2010b).

In Belgium, important legislative initiatives concerning SRI have been made. The Belgian Parliament adopted a law in March 2007 prohibiting all financial activities related to manufacture, use and possession of anti-personnel mines and sub-munitions banning all the financing activities related to controversial weapons.

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<sup>3</sup> Kofi Annan at the launch of the UN PRI in New York, 27 April 2006.

<http://www.unep.org/Documents.Multilingual/Default.asp?DocumentID=475&ArticleID=5265&l=en>

<sup>4</sup> European Sustainable Investment Forum

In addition, a proposition of a law defining the *minimum standards for SRI* was made in August 2004 and second in April 2008. The initiative was strongly supported by the civil society: NGO's, consumer organizations, trade unions and particularly by Belsif (Belgian social investment Forum). Nevertheless, no law has yet been adopted by the government (Réseau Financement Alternatif 2010). The minimal norm for SRI would mean that banks need to exclude all the companies not respecting the international agreements (Human rights, labor conditions etc.) signed by Belgium from their SRI investment portfolios. Since no official norm exists, banks can still define themselves what is socially responsible or ethic (Leloup 2009).

In consequence, the Belgian asset manager association BEAMA launched a new minimal norm for SRI in June 2010. The BEAMA label has been criticized by Belgian NGOs as it does not exclude investing in weapons or polluting industries. The label is not considered enough credible as it is defined by the financial institutions themselves (Thomas 2010).

## **4. ESG analysis in practice**

This chapter looks into the different providers of ESG analysis and the criteria based on which the companies are selected in SRI fund universes.

### **4.1. Providers of sustainability analysis**

The SRI investment decisions depend on reliable information on companies' sustainable performance. Since no standardized norm exists for SRI, the ESG analysis and criteria can vary a lot among different rating agencies and financial institutions. The ESG analysis in financial institutions can be done in two ways: internally by an in-house research team or externally by an independent rating institution (Schäfer 2005).

#### ***4.1.1. ESG analysis in financial institutions***

Banks can have a special SRI department next to traditional financial analysis department, whose main task is to screen companies based on criteria defined by the bank. In addition, bank can use external rating agencies or research institution's services to complete the analysis and acquire information regarding certain topics (Schäfer 2005).

**Triodos** is a Dutch bank concentrating all its activities in sustainable investing and the only sustainable bank in Belgium. Having over 30 years' experience in the field, it is considered a pioneer in the field of SRI. Therefore we take Triodos as an example to demonstrate an in-house sustainability analysis. The ESG analysis is done by an in-house SRI department together with an Expert Advisory Panel consisting of nine academic experts in the field of sustainability. Triodos has established its own sustainability analysis, which is done in three steps:

1. Sustainable activities: Triodos is investing in companies having at least 50 % of their revenues from sustainable activities in the areas of clean planet, healthy people and climate protection.
2. Best-in-class: Companies not fulfilling the first criteria of sustainable activities can still be considered in the Best-in-Class SRI funds. Each sector is assessed with 70 sector specific sustainability criteria and only 50 % of the best performing companies qualify in Triodos sustainable funds universe.
3. Minimum standards: Triodos excludes all companies having product related activities in animal testing, factory farming, fur industry, gambling, GMO, hazardous substances, nuclear power, pornography, tobacco and weapons or process related activities violating human and labor rights, causing environmental damage, corruption, Corporate governance and laws, codes and conventions (Triodos 2011).

This paper focuses on the sustainability analysis of Dexia and KBC, who are the current leaders of the SRI market in Belgium.

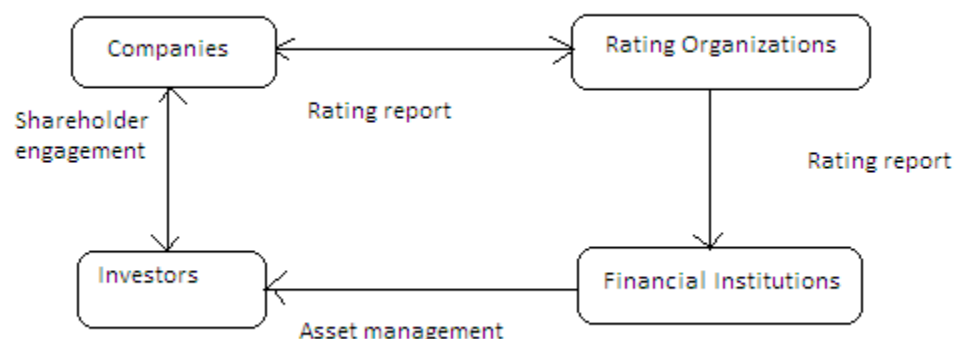
#### ***4.1.2. External ESG providers***

According to Schäfer (2005), ESG rating institutions tasks are to collect information, screen and monitor companies and report on their CSR performances, identify business risks, influence publicly listed companies sustainability policies, promote environmental and social values with respect to shareholder value, and finally, act as a link between stakeholders and companies and inform consumer as companies what it comes to CSR.

The majority of the external rating institutions are private NGOs working as an intermediary between stakeholders and companies, having no direct link with capital markets. These agencies

have complete and critical databases on company behaviors developed during their initial activity as an NGO (Schäfer 2005).

**Figure 5: ESG analysis by rating agencies**



Source: Schäfer (2006, pg. 145, adapted)

As the figure 5 demonstrates, rating organizations measure and report on companies' sustainable performance. Financial institutions acquire these reports in order to determine which companies they include in their SRI fund universes. These funds are promoted as SRI for investors.

There are several national and international rating agencies and sustainability indices banks are using, just to name a few:

- EIRIS and the FTSE4GOOD index
- Innovest Strategic Value Advisors
- KLD Research & Analytics, Inc.
- ASSET4
- Vigeo Belgium
- Forum Ethibel (Ethibel sustainability Index ESI)
- Triodos sustainability universe

In most of the cases, the ESG criteria of the rating agencies are based on international conventions, such as UN Declaration of Human Rights, the ILO<sup>5</sup> Core Labour Standards, the

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<sup>5</sup> International Labour Organization

OECD<sup>6</sup> Guidelines for Multinational Enterprises and the OECD Guidelines for Corporate Governance (Schäfer 2005).

**EIRIS** for example, is a global provider of ESG performance of over 3000 companies. Based on EIRIS research, the global FTSE4Good index lists companies meeting the sustainability criteria. Each company is evaluated against 350 sustainability indices measuring their ESG performance. The indexed companies need to fulfill the following criteria:

- Work towards environmental sustainability
- Build positive relationships with stakeholders
- Respect universal human rights
- Make sure the labor standards are good in the whole supply chain
- Refuse bribery

Nevertheless, the weight of each criterion is not equal, but depends on client's preferences: company environmental policy can be evaluated with more rigorous criteria than social policy for example. In addition, FTSE4Good Index excludes certain controversy industries, such as tobacco producers, any nuclear weapon system products, companies producing whole weapons systems, owners or operators of nuclear power stations (EIRIS 2009).

**Vigeo** is a French rating agency having a subsidiary in Belgium. Their ESG evaluation is based on 38 criteria in six fields: Human Resources, Human Rights, Environment, Customers & Suppliers, Community Involvement and Corporate Governance. Each of the fields is evaluated in three levels: leadership, implementation and results. The evaluation is based on international norms and conventions and consultation with both companies and their stakeholders. Vigeo uses 250 sustainability indicators in their analysis (Vigeo 2010a).

The quality of SRI can also be confirmed by a label. In Belgium, Forum **Ethibel** is an independent SRI consultancy. SRI funds carrying the *Ethibel European quality label* have to fulfill the overall ESG criteria. Openness, transparency and respect for the legal framework are the minimum conditions for all the companies. In addition, Ethibel evaluates companies from four aspects: Internal social policy, Environmental policy, External social policy and Ethical

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<sup>6</sup> Organization for Economic Cooperation and Development

economic policy, which all have the same weight in the evaluation. Each aspect is evaluated by several sub-criteria. The evaluation considers not only the information published by the company, but is done in interaction with different stakeholders of the company. Ethibel excludes automatically sectors such as armament, gambling, nuclear energy and tobacco. Involvement in hazardous chemicals, pornography, GMO's, Alcohol and Animal maltreatment, is carefully examined, but does not mean automatic exclusion (Ethibel 2003).

According to Scalet & Kelly (2010) the various CSR ratings have also been criticized for their heterogeneity and lack of standardization, complexity of their methodologies, limited transparency regarding the weight of each criteria and information sources, and limited comparability of different ratings and overwhelming amount of data requests.

As the figure 6 shows, the evaluation criteria in all the three rating agencies are different. Even though they all base their evaluation on global conventions such as human rights, different terms are used. EIRIS and Ethibel use particular exclusion criteria, whereas Vigeo does not. All the agencies use multiple sources, such as partners and stakeholders, not only direct company contacts. Ethibel has same weight for all the four sustainability criteria, whereas EIRIS is flexible regarding client's needs.

**Figure 6: Comparison of rating agencies ESG criteria**

	Sustainability criteria	Exclusion criteria	Source
EIRIS FTSE4GOOD	<ul style="list-style-type: none"> <li>• Environmental sustainability</li> <li>• relationships with stakeholders</li> <li>• Human rights</li> <li>• Labour standards</li> <li>• Refuse bribery</li> </ul>	<ul style="list-style-type: none"> <li>• Tobacco</li> <li>• Nuclear weapon system products</li> <li>• Whole weapons systems</li> <li>• Owners of nuclear power stations</li> </ul>	<ul style="list-style-type: none"> <li>• Company dialogue</li> <li>• EIRIS internal survey</li> <li>• External information</li> <li>• 350 indices</li> </ul>
Vigeo	<ul style="list-style-type: none"> <li>• Human Resources</li> <li>• Human Rights</li> <li>• Environment</li> <li>• Customers &amp; Suppliers</li> <li>• Community Involvement</li> <li>• Corporate Governance</li> </ul>		<ul style="list-style-type: none"> <li>• Company surveys</li> <li>• Multiple stakeholder consultations</li> <li>• 250 indices</li> </ul>
Ethibel	<ul style="list-style-type: none"> <li>• Internal social policy</li> <li>• Environmental policy</li> <li>• External social policy</li> <li>• Ethical economic policy</li> </ul>	<ul style="list-style-type: none"> <li>• Armament</li> <li>• Gambling</li> <li>• Nuclear energy</li> <li>• Tobacco</li> </ul>	<ul style="list-style-type: none"> <li>• Company dialogue</li> <li>• international partners</li> <li>• Stakeholder survey</li> <li>• Public information</li> </ul>

Source: Vigeo 2010; Ethibel 2003; EIRIS 2009

## 4.2. Selection criteria

After the company evaluation, the selection of companies in the SRI universe is based on certain criteria. Eurosif (2010a) established a new categorization of SRI screening methods in 2002, due to many different definitions in the European SRI market. SRI can be divided in **Core and Broad SRI**, both having three sub-categories. Moreover, the Core and Broad SRI criteria are overlapping with the four generations criteria.

### 4.2.1. Core SRI

The Core SRI includes three different screening methods: norms and value based excluding criteria and two types of positive approaches: best-in-class and thematic approach.

**Norms and value based** evaluation is based on at least two types of negative criteria, for example, companies using animal testing and nuclear energy are excluded.

**Best-in-class** approach favors companies with the best overall ESG ratings in certain sector, even in controversial sectors such as tobacco. The analysis is based on various sustainability criteria regarding companies' ESG policies. Best-in-class funds often include a certain percentage, for example 50% of the best performing companies, of each sector in the SRI universe. This approach enables investors to influence companies by pushing them to adopt the best sustainability practices in the sector. According to Réseau Financement Alternatif (2010) Best-in-class funds correspond to the third generation of SRI funds.

**The thematic approach** consists of selecting companies or projects, which are innovative in sustainable development. For example, a company needs to realize at least 50 % of its turnover from sustainable activities contributing positively to the society or to the environment. Currently popular theme is “clean energy”, for example firms providing wind or solar power. New themes such as health and nutrition are emerging. Thematic approach is getting popular in Europe and is appreciated by investors seeking a direct impact. According to Réseau Financement Alternatif (2010), thematic funds using positive selection criteria correspond to the second generation SRI funds.

### 4.2.2. Broad SRI

Broad SRI consist on simple exclusions, engagement and integration strategies.

**Simple exclusion** means that maximum two exclusion criteria are used in the evaluation. In practice, a single sector or industry producing weapons for example is excluded.

**Engagement** strategy seeks to influence the way companies do business. This means continuous dialogue with organizations in order to make them adopt a more forward-thinking approach regarding sustainability. In Europe, the most popular engagement activities concern corporate governance, but engagement activities can vary significantly between different European countries as well as asset managers within the same country. Moreover, engagement strategies are always practiced in combination with Core SRI strategies.

**Integration strategy** means that ESG criteria are added to traditional financial analyses. This strategy is considered the most sustainable SRI strategy (Eurosif 2010a). Today, the engagement and integration strategies correspond to the fourth generation funds and shareholder activism (Réseau Financement Alternatif 2010).

The figure 7 compares the Broad and Core SRI criteria.

**Figure 7: The Core and the Broad SRI.**

Core SRI		Broad SRI	
Norms -and value based screening	Evaluation based on at least two or more exclusion criteria	Negative screening/ simple exclusion	Screening is based on simple exclusion of one controversy sector for example.
Best-in-class	Selection of the leading companies regarding the ESG criteria in certain sector or industry	Engagement	Influencing company CSR strategies by continuous dialogue or proxy voting.
Thematic approach	Selection of companies that contribute significantly on environment or social policies	Integration	Include ESG in traditional financial analysis

Source: Eurosif 2010a, European SRI Study 2010

Broad SRI is mostly used by large institutional investors, and therefore it has clearly bigger market share than the Core SRI strategies in Europe. Broad SRI accounts 77 % of the European

SRI assets and Core 23 %. The repartition varies largely across countries. In Belgium, Core SRI accounts for only 12.6 % and Broad SRI strategies 83.4% of the market (Eurosif 2010).

### **4.3. Co-existence of different approaches**

As discussed in the previous section, today different screening strategies, Core and Broad SRI and four generations, co-exist.

There are also some differences between Europe and the USA. Whereas negative screening strategies are used in the USA, more proactive strategies and positive screening such as best-in-class and thematic funds are taking place in Europe. Negative screening is considered a narrow minded-approach in Europe (Louche & Lydenberg 2006). For example, in Belgium exclusion of industries having activities with production of weapons is an obligation by law and therefore no longer considered a SRI strategy (Réseau Financement Alternatif 2010).

Negative screening is criticized for having little impact on companies' sustainability policies, as long as there are investors who are investing in excluded companies. It is considered a way to express personal moral opinion; not to fight against companies. Shareholder activism on the contrary is called the "muscle" of SRI, being considered the most effective way to impact on company's sustainability activities by internal pressure (Glickman & Kelly 2004). Thematic funds can contribute significantly to environmental innovation, but the SRI analysis can ignore other important facts such company's respect for human rights (Laget 2010).

The screening criteria could be more rigorous. Many SRI funds were investing in BP before the big oil catastrophe at the Gulf of Mexico, as BP was regarded as one of the best-in-class companies of the oil industry (Mercure 2010). Also Enron was considered a good example of a SRI company having stocks in many SRI funds before its failure. The difficulty of screening is to get the real numbers: financial statements often leave out "externalities" such as environmental impacts, and that the board constituting of only management, is a profit maximizing unit without stakeholder presentation (Glickman & Kelly 2004).

## ***Second part: Marketing financial services***

The following chapters describe the specific features of marketing services and marketing financial services in particular. First chapter defines the seven Ps of service marketing: *product, place, promotion, price, process, people* and *physical evidence*. The second chapter looks into special characteristics of marketing financial services regarding the three Ps; products, promotion and people. The third chapter focuses on what is known of marketing SRI today. Finally, the last chapter looks into the situation within the Belgian SRI market.

### **1. Service features and 7Ps**

There is an essential difference between marketing products and services. The benefices of a product are related to the features of the product, whereas the benefices of service depend on actions and performance (Bitner & Zeithaml 2000, p. 11-14). Services have four typical characters: *intangibility, heterogeneity, perishability* and *simultaneous* production and consumption.

*Intangibility* means that service cannot be seen, touched or easily displayed. Services cannot be patented and are therefore services are easy to copy by competitors. As services are produced by human beings they tend to be *heterogeneous*: each client advisor can provide different service quality for different customers. Moreover, each client perceives services differently, which makes consistent service quality a challenge. In order to attain high service quality, consumers need to indicate their needs clearly and client advisors have to be willing to satisfy those needs. Production and consumption of a service is *simultaneous*, because client service plays an important role in the service process and is intensively linked to the product and client's service experience. The last service feature, *perishability* means that services cannot be stored or returned (Bitner & Zeithaml 2000, p. 11-14).

In order to evaluate marketing of financial services, it is important to understand the particularities of service marketing. The classic product marketing strategies concentrate on four important elements: *product, price, place* and *promotion*. The approach is known as 4P. Product refers to all the physical features, quality and branding of the product. Place refers to distribution channels, outlet locations and exposure. Promotion includes all the marketing communication

such as advertising, sales and PR related to the product. Price refers to the price level, discounts and differentiation. Nevertheless, in service marketing, three more elements are added: *physical evidence*, *people* and *process*.

*Physical evidence* includes all the tangible representations of the service such as brochures, business cards, report formats and equipment. It can also mean a physical facility where the service is offered, for example a local bank branch.

*Process* means the procedures and activities by which the service is delivered. Process is directly linked to efficiency of the service delivery. For example, financial consultation includes negotiation with bank's advisor and reviewing information about risk and return in order to sign the final contract.

*People* are an essential ingredient of service provision as consumers perception of the service quality is based on interaction with company employees. Personnel should be well trained, have appropriate interpersonal skills and service knowledge to provide quality service (Bitner & Zeithaml 2000, p.18-12).

Out of the total 7 Ps of service marketing, the research questions of this study are most related to three Ps: **product, promotion and people** and therefore those are described in more detail in the following chapter. Nevertheless, overlapping of different service features such as communication, distribution and selling process is typical for financial services. For example, client can decide to buy a product by answering a direct mail, subscribe it online after reading information on the website or after a consultation at a local branch (Harrison 2000, p.128-131).

## **2. Financial services marketing**

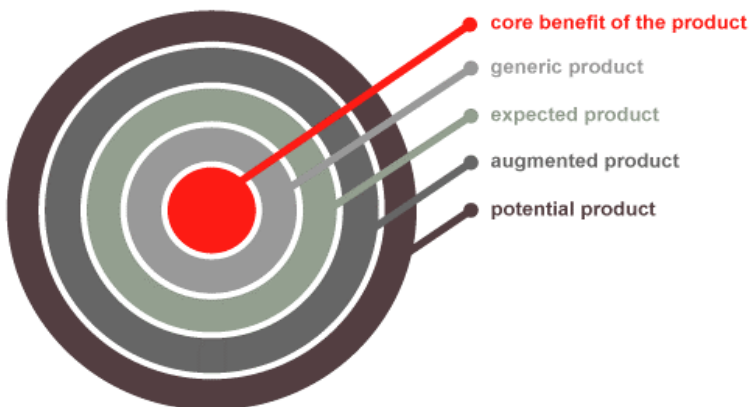
Competition in banking sector is stiff considering the current number of financial institutions. In addition, new financial services are offered by companies and new internet based firms, which are competing with commercial banks. As financial services are easy to copy and difficult to differentiate, delivering high customer value has become essential in marketing financial services. On the one hand, markets are saturated and highly segmented and therefore satisfying various customer needs is challenging. On the other hand, there is an evolution towards a more global

client approach and banks are providing more and more standardized services, which are often accessible online. Moreover, the role of client service has become even more important in learning about the specific needs of customers. As acquiring new clients is expensive, banks prefer to develop customer loyalty within existing clients and constantly develop new innovative banking services (Badoc 2009, p.34-35).

## 2.1. Special features of financial products

Financial service is a combination of prices, practices, promises and people, and therefore the “product” is deeply related to other features of the marketing mix. In order to demonstrate the complexity, Kotler (2006, p. 130-132) distinguishes five different product levels (figure 8): The *core benefit* of financial service is the most important level, for example the investment advice. The *actual product level* refers to the basic service features of the product, such as receiving advice on services meeting the current and the future needs of the client. The *expected product level* refers to clients’ expectations; they want to receive objective advice from a trustworthy and reliable source. The *augmented product level* refers to the support systems serving the client, for example financial health-check, regular follow-up of developments, regular reviews and mailings of product information to the client. The *potential product level* refers to possible future evolution of the product. Financial institutions can try to exceed client’s expectations by anticipating his needs, and proactively serve the clients before new needs arise (Harrison 2000, p. 96-99).

**Figure 8: The five products levels**



Source: Kotler etc. 2006, p. 132

### ***2.1.1. Concept of risk and revenue***

Financial services are complex by nature: the outcome of an investment plan cannot be evaluated in the sales process as the quality of financial product is related to its future maturity. Moreover, investors need to understand the intense relation between return and risk. In order to increase the return, investors have to take a superior risk. Funds with higher risk are more volatile and often require longer retention to generate profits. Therefore, it is necessary to take certain level of risk in order to gain return in the long term and cover the costs of the investment service, such as taxes, inflation and the administrative fees (Fleuriet 2007, p. 486-493).

### ***2.1.2. Different types of investment products***

Investor can choose from different types of investment products depending on the time frame of the investment, desired revenue and risk profile. In addition, SRI investor respects one or more of the ESG criteria. Financial products can be roughly divided in *bonds*, *shares*, *mutual funds* and *saving accounts* (Bernet-Rollande 1999, p. 71-101).

- Investing in **bonds** means buying debt issued by a government or a company. Investors lock their money for a certain period and receive a regular interest rate; in addition, the money is repaid to the investor on maturity. Bond returns and risk are considered rather low and are suitable for long-term investments.
- Acquiring **shares** makes investor a part-time owner of the company and entitles to receive share of the profit generated by the company. Investors can gain returns from dividend the company pays regularly or by selling shares for a higher prices than they paid for them. Shares bear higher risk than bonds, as they are more volatile: share prices of listed companies vary from day-to-day depending on various factors such as economy and company management.
- **Mutual funds** are managed by an intermediary such as a bank. They collect money from several investors and re-invest it in shares, bonds or other securities. Investors pay a fee to a fund manager who manages the fund for them. The fund manager has to respect the objectives of the fund, for example the SRI screening procedure. SICAV, *Sociétés*

*d'investissement à capital variable*, is common investment product in Belgium. It is an open-ended mutual fund entitling investors to withdraw their money at any time. The revenue of SICAV is divided equally among all the investors in proportion to the amount invested.

- **Saving accounts** pay a low interest rate and their risk is very low. Investors deposit money on an account and can withdraw it when they want. Savings accounts are normally considered for short-term investments (Bernet-Rollande 1999, p. 71-101).

## **2.2. Promotion of financial services**

Communication is an important part of marketing financial services. It has to be based on real features of the product and correspond to the real service quality. A good communication strategy has clear objectives and is well known by the internal organization in order to send a pertinent message to the targeted public (Harrison 2000, p. 200).

Financial institutions have specific challenges in marketing communication. In general, consumers perceive financial services as important or necessary, but only few are really interested in them. In addition, banking services are criticized for being opaque and difficult to understand. Furthermore, banks are often perceived opportunistic profit maximizing units who are indifferent to consumers' needs (Zollinger & Lamarque 2008, p. 136-137). Due to the financial crises in 2008, consumers lost their trust in financial institutions (Ernest & Young 2011).

According to Harrison (2000, p. 2000-225) the promotion of financial services can be done through various channels: advertising, sales promotion, personal selling at local branches, public relations, direct mail, direct response advertising and sponsorship. The choice of channels depends on objectives, target audience and type of service promoted. Due to heterogeneous and intangible nature of financial services, accurate advertising or display of the products is almost impossible. Therefore, financial institutions tend to use non-personal advertising such as television, radio, print, cinema, outdoor etc. for very general purposes. Moreover, they seek to create awareness of the company brand as bank's brand and reputation are determinant for clients when deciding on financial services.

Furthermore, banks can use rational, emotional or moral appeals in their advertisement. Rational appeals refer to actual service features such as quality, value and performance. Few banks use rational messages due to difficulties to evaluate the risk of financial products. Emotional appeals use positive and negative feelings appealing to consumers. Positive messages focus on humor, love or pride and negative messages on fear, guilt and shame. Negative emotions are appealed especially when marketing insurance products. Moral appeals refer to personal values and morals and are mostly used when advertising “green” products and ethical investments.

Legal requirements regarding advertising are typical for promoting financial services. This is due the specific terms and conditions of the financial contracts and because prices might vary according to individuals’ characteristics and financial status. The financial services act (1986) sets legal conditions on advertising financial services like inclusion of certain information on the advertisement (Harrison 2000, p. 200-225).

According to Badoc (2009, p.61) latest innovation in banking services is to offer service “packages” including different banking services such as daily banking, investing and insurance. The main motivation to offer a service package is to make clients concentrate on one bank and thus create more customer value and profits.

Moreover, online banking has increased tremendously over the recent years and internet has become more popular in interacting with clients. Correctly implemented, internet can improve service quality and delivery, decrease costs and standardize core service offerings. Internet banking enable clients to get access to their accounts, but also to information on products and services on bank's website, without sending letters, faxes, original signatures or telephone confirmations. The most important quality features of online banking are accuracy, security, network speed, user-friendliness and convenience. Moreover, navigability of the website can be banks’ biggest competitive advantage nowadays. Therefore, internet site should be easy to use; banks should provide sufficient and updated information on their products and services and support their clients in adopting new electronic delivery channels (Rahmat Safeena & Hema 2010).

However, banks have adopted new marketing methods such as permission marketing, as the traditional direct marketing channels – telephone, mailing and internet – are so saturated that they

have become ignored by the clients. Permission marketing means communicating to clients only with their permission using channels chosen by clients. Bank contacts a potential client only once, and the rest depends on client's interest. The method seeks to increase clients' confidence in banks by avoiding too aggressive marketing (Badoc 2009, p. 95-99).

### **2.3. People: the role of financial advisors**

In spite of increasing application of e-banking services, personal advice is still highly valued by clients. Advisors help clients to confirm information on banks' website and thus increase client's confidence on financial services. Moreover, the personnel having direct contact with clients represent the financial institutions and are seen as part of the product. In other words, service quality is inseparable of the quality of the bank's image (Yap etc. 2010).

Financial advisors have to work for the best interest of the client and their employee, which might create conflict in the sales process. They also have their personal interest in the sales process, as they are often remunerated on commission basis, which could motivate them to maximize short term profits. In addition, financial advisors have a fiduciary duty: they have to keep their promise and they have a responsibility of clients' assets. The client in turn needs to place a lot of trust on the advisor and the credibility of the advice given (Harrison 2000, p. 139-146).

According to Fleuriet (2007, p. 85-86) a relation of trust and confidence with the client is imperative. Advisors have to listen and understand client's needs. Moreover, they gain credibility by their professional skills and knowledge and loyalty by keeping their word. A good advisor is open, friendly, capable to deliver immediately, compliant and gives the client a feeling of being unique. Advisor should try to pose the right questions regarding client's wishes and financial situation in order to conclude the contract.

Financial advisors are obliged to require information on client's knowledge on different investment products. **The Markets in Financial Instruments Directive (MiFID)** by European Commission is applicable since November 2007 (Eurlex 2004). The objective of the regulation is to ensure transparency particularly between non-professional retail investors and asset managers. Moreover, financial advisors should provide clear information on the revenue and the risks related to the investment product and recommend products, which suit best for the clients regarding their financial situations and investment objectives.

Furthermore, advisors should analyze precisely the return of each investment class by considering the historic return, future economic and financial perspectives, volatility and risk. Eventually, they should propose which amount to invest in each type of financial product (Fleuriet 2007, p.492).

According to Teyssonier etc. (2005, p. 69-81) financial consultation includes four main steps:

1. Definition of short term and long term objectives of the client
2. Putting client's objectives in hierarchic order
3. Defining the amount invested and repartition among different products and establish an action plan that takes into consideration possible obstacles
4. Regular monitoring of the investment and possible corrective measures every year

In more detail, investment plan should be based on the following information:

- Current financial situation of the client: savings, debts, pension saving schemes, actual investment portfolio, current revenues and charges and possible inheritance tax.
- Familial situation: marital status, age and children that could have an impact on taxation.
- Investment objectives and future short and long term capital needs: is the objective valorization of capital or re-investing in the future, such as buying a house or a car, which could impact the investment portfolio? (Teyssonier etc. 2005, p. 69-81).

### 3. Marketing of SRI products today

This chapter looks into recent studies regarding marketing of SRI products. The first section reviews studies on clients' expectations concerning SRI. The second section presents the SRI promotion guides based on the research of ORSE, *Observatoire sur la Responsabilité Sociétale d'entreprise*, in 2009 and 2010. Based on these studies, we can establish an ideal marketing method for SRI products.

#### 3.1. Clients' expectations

EFMA, in collaboration with PriceWaterhouseCoopers (2009), conducted a study on sustainable development in banking services for retail clients in 2009. The study revealed several gaps between clients' expectations and banks' actions regarding SRI. The main reason was **insufficient communication**. 45 % of European banks propose their employees formation on sales and marketing of SRI product and only 9 % dispose a sales team specialized in such products. Therefore, only fifth of the Europeans perceived their banks' client service sensible to sustainable development and their expertise on SRI was considered low. The study also revealed that 50 % of the clients in general know SRI products (SRI funds, microcredit and savings accounts), but were unaware if their own bank was offering such products/services.

When it comes to Belgian sustainable investors, there is not much public information available. Furthermore, the thesis of Caron (2010) revealed that retail investors want more **transparency** regarding SRI products. They want to know in more detail the amount of money invested and the projects and companies SRI funds invest in. Moreover, information concerning SRI investments is not enough specific. Investors are afraid of too technical details they need to go through, complex terminology and the subject itself is complex. Therefore, SRI should be **communicated in a simple and comprehensive way**.

Investors also want banks to be more proactive in selling SRI products and raising the public awareness by using **mass media advertising**. Banks were claimed to be too passive in marketing SRI, in other words waiting clients to demand more ethical funds or to check information on their website. The research also found out that investors want to participate more and receive more information by means of **seminars and clubs** dedicated to alternative investors (Caron 2010).

As the recent studies show, there is still a gap between investors' and financial institutions perception of SRI. Therefore it is interesting to investigate, how the Belgian banks are promoting SRI today and is there need for improvement?

### 3.2. Best practices of marketing SRI

ORSE published marketing guides for SRI products in 2009 and 2010. The guides are based on research among different SRI actors such as banks and CSR experts in France as well as benchmarking with financial institutions in other countries. First we are going to look into the issues concerning SRI marketing in general and then detailed marketing actions regarding the marketing of SRI for retail clients and internally for banks personnel.

SRI promoters need to build a **clear position** compared to classic funds, but also to other types of SRI funds, because of the various categories of SRI products such as “best-in-class”, “ECO” and “thematic”. Moreover, banks should provide support information concerning SRI objectives, the selection procedure and consequences of different combinations of funds.

The **transparency** of SRI products should be improved, which can be obtained with a special transparency label. Label can also improve product's visibility to public and media. Labeled SRI products need to meet certain criteria proving the transparency of a SRI product is higher than the transparency of classic products. In Belgium, the label can be given by an external organization, such as Ethibel. The European Transparency Code by Eurosif (2010b) is another way to improve the transparency of information provided to investors.

Moreover, banks should explain their clients how the ESG criteria can reduce investment risks and how clients can gain **profit and benefices in the long term**. It is also important to highlight that SRI funds are as liable and profitable as non-SRI funds (ORSE 2009).

The SRI promotion guide (ORSE 2010) proposes very specific operational actions concerning the **marketing of SRI for retail clients**. Banks should:

1. Establish internet page dedicated to SRI, including:
  - History, definition and market progress of SRI
  - Bank's engagement and initiatives in SRI ( principles, comities)
  - Market position (concurrence)

- SRI methodology
  - Voting policy
  - Transparency code and labels
  - Research and information
2. Distribute information, articles and studies on SRI to clients by mail, emails or online documents that can be downloaded on the website
  3. Communicate in web TV about the definition and concept of SRI
  4. Promote SRI in financial fairs

Special attention should also be paid to promotion of SRI products at local branches:

5. Distribute commercial material about SRI product and banks' expertise on SRI
6. Propose different communication tools such as films and posters dedicated to inform retail clients in all the agencies of the distribution network
7. Organize commercial campaigns in order to raise awareness of SRI

The financial advisors have an important role in marketing SRI for retail clients. The guide (ORSE 2010) proposes particular pedagogic actions in order to raise awareness and improve **knowledge on SRI among banks' personnel**. Banks should:

1. Establish an intranet site containing information and pedagogic material on SRI and CSR policies, for example articles and video spots.
2. Propose e-learning tools online in order to raise awareness of the personnel around the world
3. Organize information meetings and conferences among personnel
4. Organize formation for personnel on CSR and SRI, concerning their definition, market and stakeholders
5. Train Asset managers and all the sales personnel in the whole distribution network

In addition, banks should improve synergies between financial analysts and portfolio managers by:

6. Distributing latest research results on SRI analysis among all the asset managers

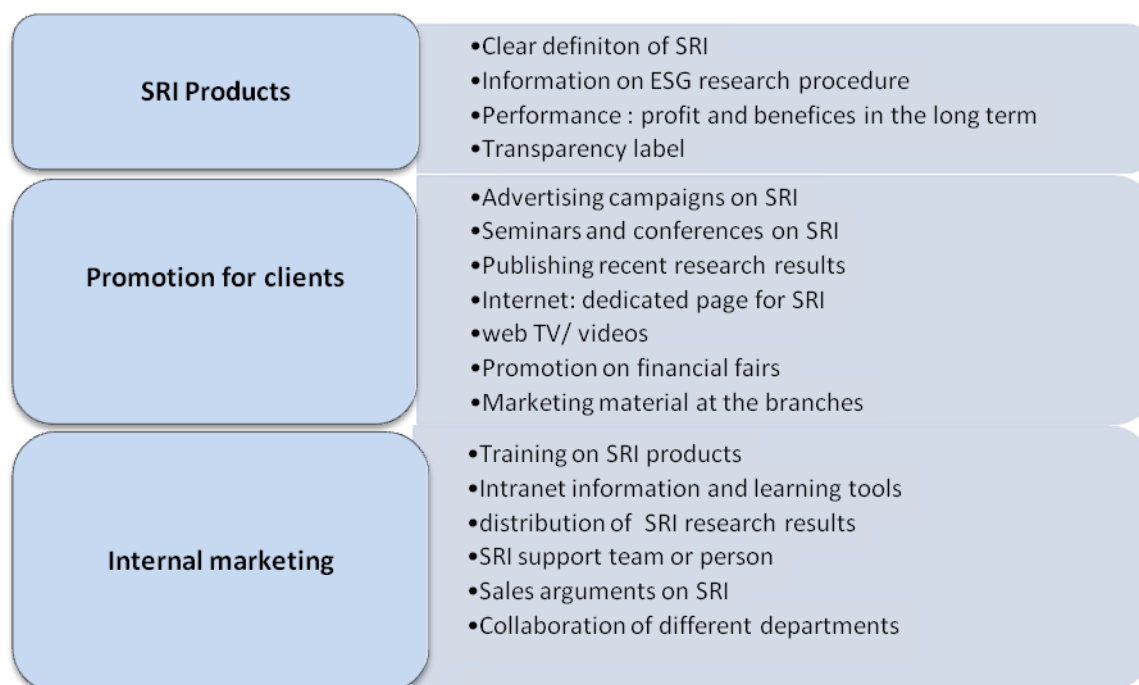
7. Establishing an informational online tool that facilitates SRI quality follow-up and ESG integration in the promotion process
8. Integrating ESG and financial analyst in the same department in order to improve information sharing and synergies
9. Organizing an entity or a transversal comity that integrates different activities and expertise of SRI in the same department, for example analysis, marketing and product innovation

Banks should also support their distribution network in marketing and sales of SRI by:

10. Forming special SRI expert teams or specialist that support the distribution channel in promoting SRI
11. Establishing and distribute sales arguments of SRI

Finally, the best practices of marketing can be summarized in the figure 9. These best practices of marketing SRI are used later in the study in benchmarking and evaluating the marketing methods of Dexia and KBC.

**Figure 9: The best practices of marketing SRI:**



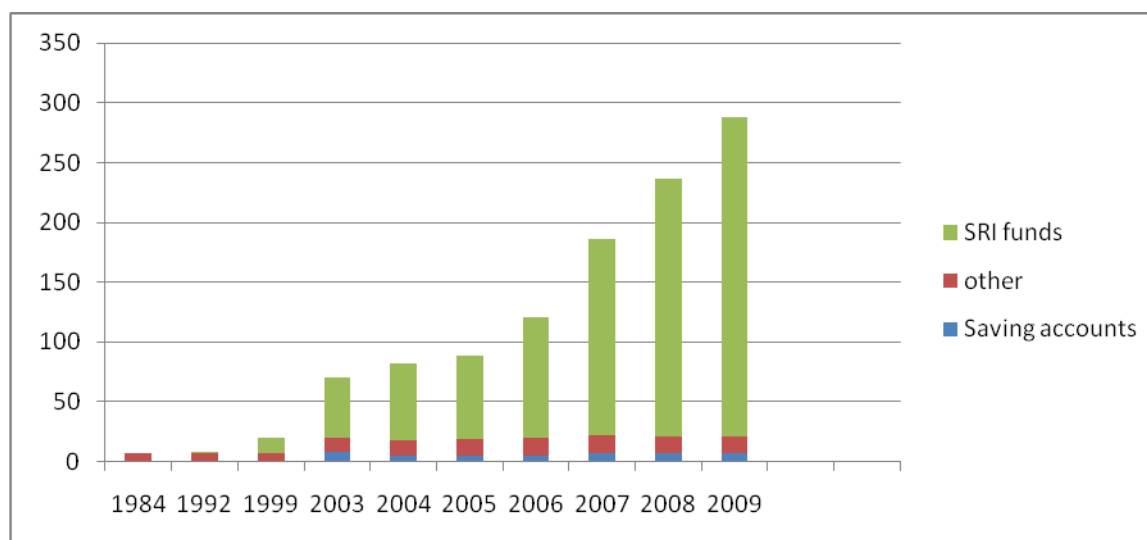
## 4. Belgian SRI Market

The SRI products can be divided in three main categories in the Belgian market: 1) Collective investment products (SICAV, investment funds, insurance funds and structured products), 2) Savings accounts, 3) Other forms of SRI (Réseau Financement Alternatif 2010).

The total number of SRI products in the end of 2009, including both retail and institutional investors was 288, 22 % more than the previous year (figure 10). Like the previous years, the majority of Belgian SRI market consists of collective SRI funds representing 92.7 % of the market. Savings accounts account for 2, 4 % and other products such as insurances 4.8 % of the market (Réseau Financement Alternatif 2010).

Over the last three years, new SRI products have been launched only in the category of collective investment funds. Their growth in 2009 was important (23.6%), but still smaller than the two last years, mainly due to financial crisis. Savings accounts on the contrary increased by 22.9 % in 2009, which is clearly more than the previous years. Belgian consumers seem to have more confidence in less risky products after the financial crisis. Only three banks offer SRI saving accounts in Belgium: PNB Paribas Fortis (14.91 %), Triodos bank (83.94 %) and VDK-Spaabank (1.16 %) (Réseau Financement Alternatif 2010).

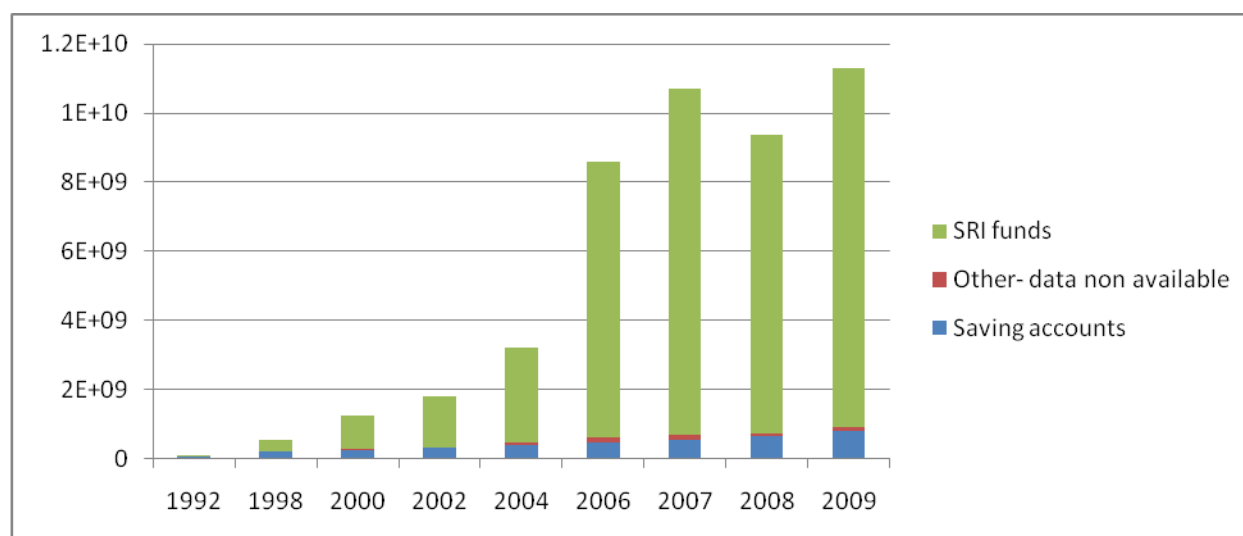
**Figure 10: the evolution of SRI products in volume**



Source: Réseau Financement Alternative 2010, ISR en Belgique.

Total value of all SRI products in 2009 was 11.28 billion €, 20 % more than the previous year (figure 11). Also the market share of SRI assets of all the assets under management raised a little, from 3.57 % to 3.78 %. The value of collective SRI funds on the contrary rose by 20 % to 10.38 billion €. The market share of SRI funds is now 8.48 % of all assets under management in Belgium. The value placed in SRI saving accounts rose by 21 % to 785 million € and for other SRI savings products by 36.96 % to 113.67 million € (Réseau Financement Alternatif 2010).

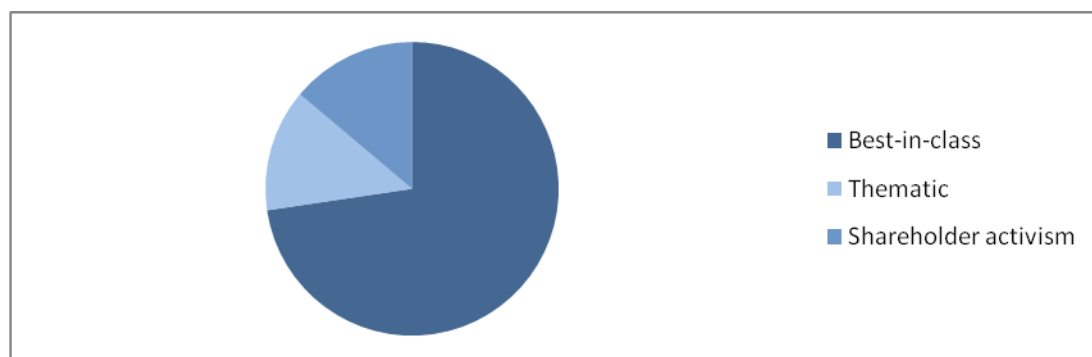
**Figure 11: Evolution of SRI products in value**



Source: Réseau Financement Alternative 2010, ISR en Belgique.

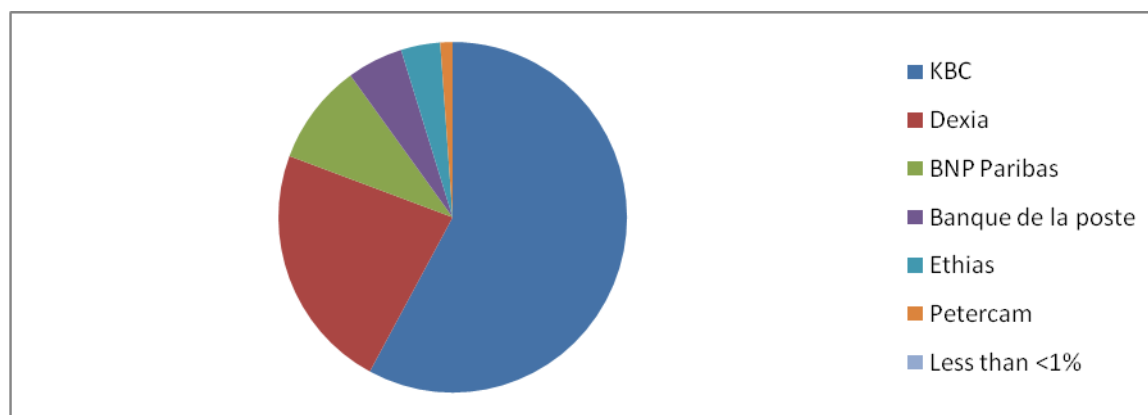
Institutional investors' (public pension or reserve funds, corporate and occupational pension funds and public authorities) account for 72% of SRI assets under management in Belgium. Retail investors account for 28%, mainly through mutual funds. The retail market has grown by 25 % since 2007, starting to be an important part of the Belgian market (Eurosif 2010a).

The Belgian market consists of 267 open ended SRI funds, which can be roughly divided in three categories (figure 12): The majority of the market, 73 %, consists of Best-in-class (3<sup>rd</sup> generation) funds, which have increased by 65 % in 2009. Thematic funds (2<sup>nd</sup> generation) represent 14 % of the market. Stakeholder activism represents 13 %, decreasing by 44 % in 2009 (Réseau Financement Alternatif 2010).

**Figure 12: SRI fund categories %**

Source: Réseau Financement Alternative 2010, ISR en Belgique.

In the end of 2009, the leaders of the market were KBC with market share in value of 56 % and Dexia with 22 % (figure 13). Dexia was the market leader until 2006, but its market share has dropped by 38 % since then. The next players are BNP Paribas Fortis with 8.9 % and Basque De la Poste with 4.6 %. For Ethias and Petercam the market share is less than 4 %, and for seven other promoters of SRI less than 1%. When it comes to different market players, it is interesting to point out that Triodos is the only bank in Belgium concentrating all its activities in sustainable investing and considered a pioneer in SRI, but its market share is less than 1 % (Belsif 2004).

**Figure 13: SRI market in Belgium (%)**

Source: Réseau Financement Alternative 2010, ISR en Belgique.

### ***Third part: empiric analysis of the marketing of SRI at Dexia and KBC***

The empirical part seeks to answer the research questions by concentrating on two cases: Dexia and KBC. Case studies are often used to understand complex social phenomena. The strength of the method is that it enables to use various research methods such as documents, interviews, observation and participative observation (Yin 2003b, p.6-8). The empirical part is divided in three chapters, consisting of different research methods enabling us to find an answer to the research questions:

**The first chapter** describes case study research method in more detail and introduces the selected cases: Dexia and KBC.

**The second chapter** aims to answer to the first research questions: *How are conventional banks marketing SRI products to retail clients and internally to their personnel?* In more detail, we want to know how the banks define their SRI products, which communication channels are used and how financial advisors are trained to sell SRI products.

Two information sources were used: 1) Secondary information such as analysis of banks' websites, annual and sustainable reports, European Transparency Codes and press releases 2) Interviews with the SRI marketing specialist of Dexia and KBC.

**The third chapter** aims to find out how Dexia and KBC are marketing SRI in reality: *How the marketing of SRI at the local branches is corresponding to banks' marketing message on SRI and how are the local advisors responding to SRI investors' information needs?*

In order to find out how the banks are marketing SRI at the local branches, we decided to use the mystery shopping method and visit five agencies of each bank and proposed to invest a certain amount of money to SRI products. The mystery shopping methodology is described later in the third chapter.

#### **1. Case study research method: Dexia and KBC**

According to Yin (2003a, p.12-14), the specific cases can be selected based on several different rationales, one of which is "exemplary" cases. Moreover, the selected cases should reflect strong,

positive examples of the phenomenon of interests. Case study method can be based on single or multiple cases approach. Thanks to additional data, analytical conclusion arising from two cases can be more powerful than from a single case. Multiple case studies also allow to compare the selected cases with each other as well as to arrive at a common conclusion (Yin 2003b, p.53). The research questions were answered exploring two cases: Dexia and KBC. Before choosing the cases, an exploratory research was made by analyzing data of the Belgian SRI market. The four biggest Belgian retail banks<sup>7</sup> were screened by using SWOT analysis. Finally, Dexia and KBC were chosen as they are clearly the leaders of the SRI market with markets shares of 56 % and 22 %, altogether covering 78 % of the SRI fund market in Belgium, and also among the four biggest retail banks, reaching 4 million clients in Belgium (Réseau Financement Alternatif 2010). The figure 14 shows the key figures of KBC and Dexia.

**Figure 14: Key figures of Dexia and KBC (end of 2009)**

Bank	Clients in Belgium (millions)	Total assets under management ( millions €)	Agencies in Belgium	SRI savings and investment products	SRI market share (%)
Dexia	4	577,630	900	20	22
KBC	4	324,231	861	135	56

Source: annual report of Dexia and KBC 2009

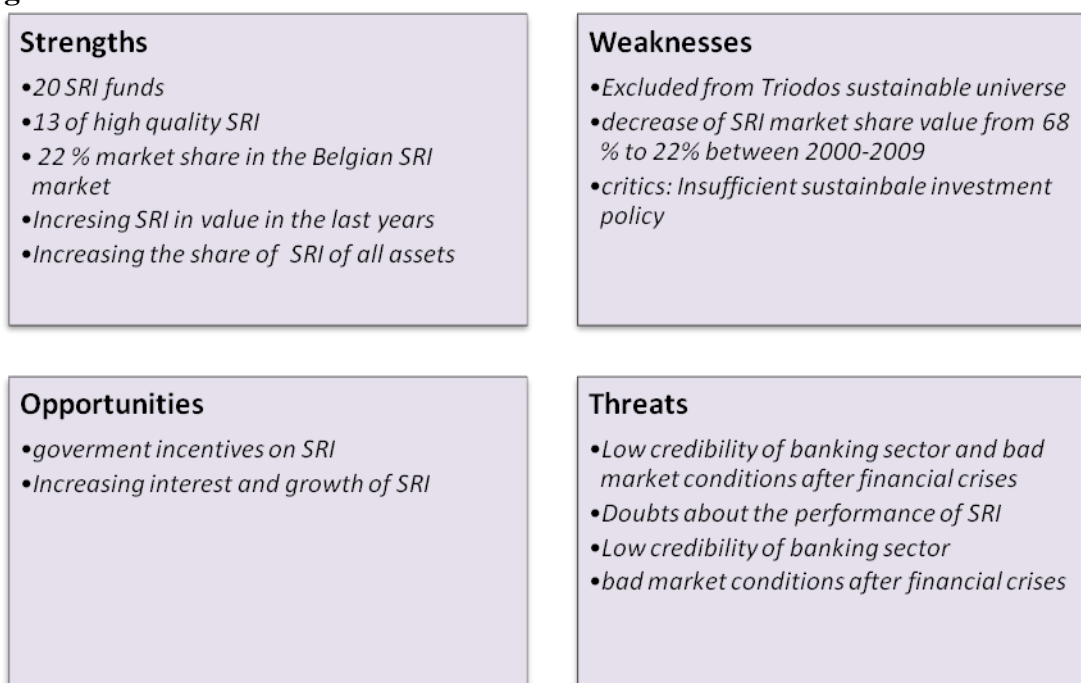
Dexia is a universal bank divided in three business lines: retail and commercial banking, public and whole sale banking and Asset Management and services, offering investment and insurance services for both retail and public clients. Dexia's main activities are in Europe in Belgium, Luxembourg and Turkey. It is one of the big four banks in Belgium providing services for retail clients.

Dexia has offered SRI products since 1996 and currently has 20 SRI funds. When it comes to sustainability and SRI, Dexia is a supporter of global initiatives. Dexia signed Equator principles in 2003 and the UNEP Principles of Responsible Investment in 2006 and is participating in UNEP finance initiative since 2007(Dexia Sustainable Development report 2009). Dexia has a 6 % market share of SRI funds in Europe, and altogether 18 milliards € of SRI assets. 22 % of its total assets are classified as SRI (Dexia Sustainable and Responsible Investments 2011).

<sup>7</sup> Four biggest banks in Belgium: Dexia, KBC, BNP Paribas and ING.

Dexia was a market leader in SRI in Belgium until 2006. Its market share has decreased from 68 % in 2000 to 22 % in 2009. Moreover, the value of Dexia's SRI assets have increased constantly, accounting for 18 billion € in 2009. The Belgian NGO, Réseau Financement Alternatif (2010) has classified 13 of Dexia SRI Funds as being high quality. Nevertheless, Dexia was excluded from Triodos sustainability universe, as it proved to have some controversial activities in Israel (Triodos 2011). Also Belgian NGO Network Vlaanderen reported the risk of harmful investments with Dexia is high: policy regarding environment and labor rights is unsatisfactory and Dexia has also financed controversy activities in Burma (Network Vlaanderen 2010a). The figure 14 demonstrates the SWOT of Dexia:

**Figure 14: SWOT Dexia**



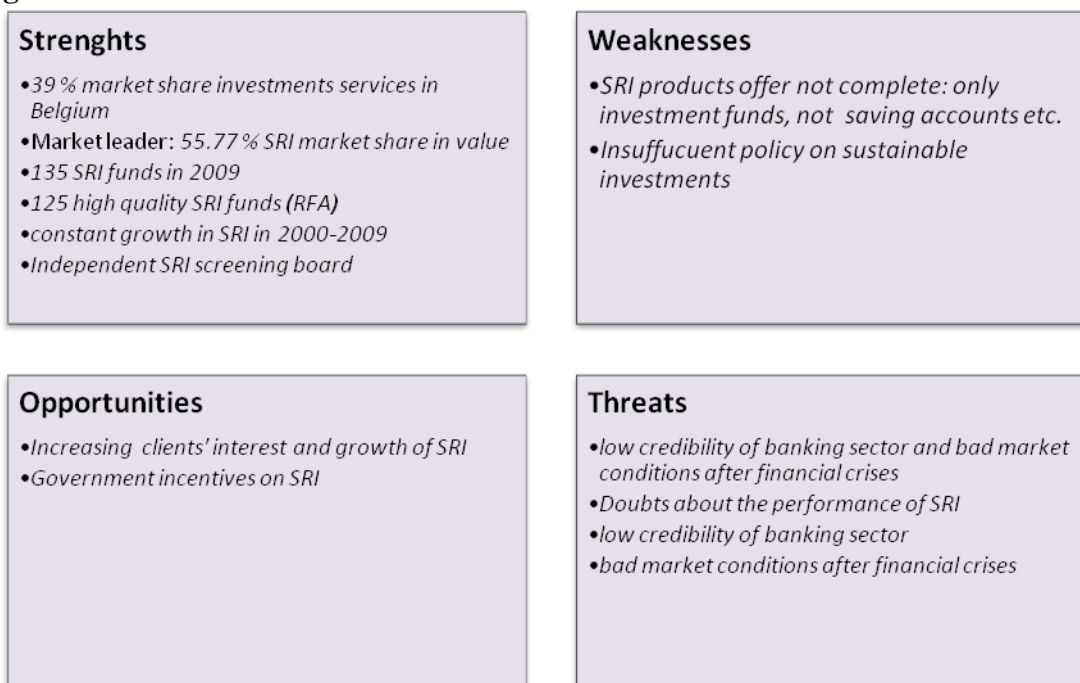
KBC offers banking and insurance services for retail, SME and mid-capital customers. It has a leading position in Belgium, the Czech Republic, Slovakia, Hungary, Poland and Bulgaria. KBC is a market leader of investments services in Belgium having a market share of 39 % in 2009 (KBC annual report 2009).

KBC was the first to offer SRI products in the Belgian market in 1992. KBC had 135 SRI funds in 2009, of which 125 were classified as high quality by Réseau Financement Alternatif (2010). KBC is clearly the market leader of SRI funds in Belgium with a market share of 56 % in the end of 2009.

KBC promotes a strong CSR policy acknowledged by external rating agencies such as Vigeo. In December 2009 KBC was chosen as the most sustainable commercial bank in Belgium. Moreover, the bank supports several global initiatives and has achieved ISO 14001 Environmental Certification for its support services in Belgium. KBC signed the Equator Principles in 2004 and joined the global compact network in Belgium in 2006. In addition, KBC signed the UN Principles of sustainable investment in 2007. KBC is a leader of the Belgian SRI market, but does not have SRI option in all product categories such as savings accounts (KBC Sustainability report 2009).

Nevertheless, also KBC sustainable investment policy has been also criticized by Netwerk Vlaanderen due to unclear environmental and labor right policy and activities in controversy countries such as Burma (Netwerk Vlaanderen 2010b). The figure 15 demonstrates the SWOT of KBC.

**Figure 15: SWOT KBC**



## **2. Marketing of SRI at KBC and Dexia**

This chapter explains how Dexia and KBC are defining and promoting their SRI products based on several sources: interviews with the SRI specialist of both banks, external and internal documents and analysis of the banks' retail websites.

The analysis is made in three steps: Firstly, we describe the development of the interview guide and introduce the data analysis method. Secondly, we report the research results regarding banks' SRI products and external and internal marketing of SRI. Finally, we analyze how the two banks are marketing SRI on their retail websites as most of the material is only accessible online.

### **2.1. Development of the interview guide and analyzing the data**

The aim of the interviews was to reveal detailed information on banks' SRI marketing strategies that could not be found on banks websites or other external information sources.

Moreover, interview is one of the most important sources of case studies. It allows asking "why" questions, for example why certain process or decision occurred. Case study interviews can be open-ended allowing the interviewee to freely describe the procedures and tell his opinions, or focused interview, following certain questions the researcher wants to address. The questions of a focused interview can also be open-ended allowing the interviewee to add important points (Yin 2003b, 85-86). This study used focused interviews: some questions regarding SRI products could be checked from external sources and the purpose of the interviews was to answer the remaining questions mostly concerning the marketing of SRI for retail clients. A semi-structured interview guide was deemed more suitable research method than a structured questionnaire due to its flexibility in researching a complex topic (Bryman 2003, p. 438). The questions were grouped in four main themes concerning SRI products, external promotion, internal promotion and future challenges of marketing SRI (appendix 2). Moreover, the semi-structured interview guide allowed the interviewees to bring up topics, which could be important regarding the research questions. The aim was to see how Dexia and KBC are marketing SRI benchmarked with best practices of marketing SRI. The questions were formed together with the supervisor and the contact from Crelan, Mr. Coeckelbergh, who is an expert in SRI.

The SRI marketing specialists in both banks were contacted by email. At KBC, the interview was carried out with the Head of SRI department, Geert Heuninck on 6<sup>th</sup> April. At Dexia, it was more difficult to find the right person, as marketing of SRI to retail clients is done by Dexia bank, not by Dexia Asset Management. Finally, the interview was done with a strategic product developer Pierre-Yves Boucau on 8<sup>th</sup> April. Both interviewees received the questions in advance in order to receive as specific information as possible. The interviews were done face-to-face at banks' offices in Brussels and lasted around 1.5 hours. Both interviews were recorded and written down afterwards. The transcripts of the interviews can be found in appendix (Dexia Appendix 3 and KBC Appendix 4). According to Yin (2003b, p. 159-160), review of the analysis can improve the quality of the case study. The analyses of both interviews were sent back to the interviewees enabling them to confirm all information was correct and add comments.

## **2.2. Definition and selection of SRI products at KBC and Dexia**

This section describes how KBC and Dexia are defining and selecting their SRI products based on the interviews with the SRI specialist of each bank and information on banks' websites. Afterwards, the methodologies are compared and analyzed in a wider context.

### **2.2.1. KBC**

The first SRI product KBC World ECO fund was launched in 1992 for retail and institutional investors, which was the first SRI on the Belgian market. SRI was launched for two main reasons: firstly, KBC had demand from some clients and secondly, the bank wanted to highlight the importance KBC accords to sustainability. In May 2011, KBC had 184 SRI products (appendix 5) in different categories (KBC Asset Management 2011):

- Equity funds
- Fixed Income funds
- Mixed funds
- Monetary funds
- Capital protected funds

Nevertheless, since 2009 KBC has decreased the amount of SRI products for retail clients. Today there exist no SRI products with a capital protection and the SRI funds are offered mainly for risky investor profile.

*“Because today we don’t offer any capital protected SRI funds. The main offers we do to retail clients are products with capital protection. We are managing quite a lot of structured SRI products without capital protection. And due to several reasons in this moment we don’t offer capital protected SRI funds. The market conditions are not good for structured funds, we need low volatility and high liquidity and we don’t find them that easily at this moment.” -Interview KBC*

Moreover, KBC is planning to launch capital protected SRI funds again from May 2011.

KBC makes a clear distinction between SRI and non-SRI funds with the positive and negative criteria it uses in SRI analysis. A fund is called SRI only if 100 % of its equity is screened. The selection criteria of KBC are based on two main strategies: Best-in-class and ECO funds. KBC has 167 Best-in-class funds and 17 ECO funds.<sup>8</sup>

The methodology of **best-in-class funds** were totally renewed in 2009, because of the financial crises and new aspects on sustainability. Companies are selected on a basis of five pillars: long-term economic policy, corporate governance, environment, internal social relations and human rights & international labor standards. Only **the best 40% of companies** in the sector are selected. Companies must respect all the five pillars of sustainability. When it comes to energy and mining, the criteria is more strict and only 20 % of the best companies are chosen.

Best-in-class countries are also selected based on five criteria: Economic performance, structure and policy, welfare and safety of all citizen, equality and freedom of all citizens, care for the environment and international relations.

**ECO funds** invest in companies having their main activities in solving an environmental problem. The four main themes KBC invests in are Water, Climate change, Alternative energy and Agriculture. Environmental themes and issues are determined together with an external

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<sup>8</sup> End of 2010

Environmental Advisory Committee. The selected must gain at least 50 % of their turnover of the theme selected, or 10 % in case of being a market leader of the product/service.

In addition to Best-in-class and ECO selection criteria, KBC uses **exclusion criteria** for all its SRI funds. Controversial weapons are always excluded as well as presence in some controversial countries. KBC is also excluding controversial sectors such as defense, tobacco manufacturers and gambling firms. KBC is investing in nuclear energy, but has special screening criteria for the sector, for example, if companies produce more than 50 % of its activities from nuclear energy, it is excluded (KBC AM 2011).

All the KBC SRI funds go through the **norms based criteria**: all the selected companies have to respect the ten principles of UN Global compact in all SRI funds (appendix 1). KBC screening strategy is summarized in figure 17 on the next page.

KBC has an in-house SRI research team since 2002. Nevertheless, SRI is monitored independently from KBC. Moreover, SRI screening criteria is determined by an External Advisory Board (EAB) composed of ten academic experts of socially responsible business, environment, human right and general SRI screening criteria. The EAB decides on the SRI methodology and approach, verifies SRI screening results and gives general advice on SRI selection and exclusion.

KBC also has an independent Environmental Advisory Committee established in 1992, advising on the four themes of eco funds. EAC has similar responsibilities as EAB, and it also sets long term strategic goals and searches for new themes for ECO funds.

In addition, KBC uses external research providers such as EIRIS and ASSET4 as well as consults information from international organizations and NGOs. The screening criteria are reviewed once a year and the external board has meetings bimonthly.

In addition to Best-in-Class and ECO funds, KBC has a voting and **engagement policy**, concentrating particularly on companies in which SRI funds hold positions of 5 % or more. KBC AM's Proxy Voting and Engagement Committee, (PVEC) encourages sustainable company activities and defends its shareholders' interests. The most common reasons for engagement are

Disclosure and transparency, clarification on specific allegations, activities in controversial countries and involvement in controversial weapons (KBC SRI Transparency Code 2010).

**Figure 17: Screening of KBC SRI funds**

<b>KBC SRI funds</b>	
Best-in-class (167)	ECO funds (17)
<ul style="list-style-type: none"> <li>• Multi-screening ( 5 pillars)</li> <li>• 40 % CSR leaders of each sector</li> <li>• 20 % energy + mining</li> </ul>	<ul style="list-style-type: none"> <li>• Theme relevance (water, climate change, agribusiness, alternative energy)</li> <li>• Fund specific criteria ( bio-fuels)</li> </ul>
Common exclusion criteria: controversial sectors + norm based	
<ul style="list-style-type: none"> <li>• EIRIS + ASSET4+international institutions</li> <li>• External advisory board</li> <li>• +-700 companies and 18 countries admitted</li> </ul>	<ul style="list-style-type: none"> <li>• EIRIS + ASSET4+own research</li> <li>• Environmental advisory board</li> <li>• +-550 companies admitted</li> </ul>

Source: internal document of KBC

When comparing a KBC SRI fund ECO sustainable Euroland with a non-SRI fund KBC Equity Fund Eurozone (figure18), we can conclude that four of the top ten (%) companies in the SRI fund are also appearing in the top ten (%) of the non-SRI fund, but the company share in the SRI fund is in most cases bigger than in the non-SRI fund (KBC Asset Management 2011).

**Figure 18: Comparison of KBC SRI and non-SRI fund.**

<b>KBC Eco fund sustainable Euroland</b>		<b>KBC Equity Fund Eurozone</b>	
ROYAL DUTCH SHELL PLC	5,68%	KBC EQUITY FUND QUANT EMU	9,24%
SIEMENS AG	3,18%	TOTAL	4,47%
BANCO SANTANDER CENTRAL HISP.	2,77%	TELEFONICA SA	3,54%
ALLIANZ AG	2,67%	SIEMENS AG	3,20%
DAIMLERCHRYSLER AG	2,59%	BANCO SANTANDER CENTRAL HISP.	2,89%
SANOFI-AVENTIS	2,51%	ALLIANZ AG	2,35%
INBEV	2,40%	SANOFI-AVENTIS	2,27%
BASF AG	2,24%	BASF AG	2,05%
KON. KPN	2,22%	DEUTSCHE BANK AG	1,85%
ING GROEP NV	2,19%	DAIMLERCHRYSLER AG	1,85%
<b>Total</b>	<b>28,45%</b>	<b>Total</b>	<b>33,71 %</b>

Source KBC Asset management 2011

### 2.2.2. Dexia

Dexia has SRI products since 1996. It started the funds because of the demand of its main investors.

*“Many of the Dexia’s shareholders are public companies, the state or public sector and their shareholders have often vision of sustainable offerings. It is in our culture to have sustainable products included in our offer.”- Interview Dexia*

Today Dexia has 17 SRI products (appendix 6) in all asset classes (Dexia 2011):

- Equity funds
- Fixed income
- Balanced
- Structured products

Dexia wants to have SRI option for all of its products. In addition to SRI funds, Dexia offers sustainable loans and Eco credits, and is also thinking about launching a sustainable savings account in the future. Dexia is planning to **launch a SRI savings account** in 2012-2014. Currently the bank is making research about advantages and disadvantages of such product, because when it is SRI, it has to bring added value and be critical.

Like KBC, Dexia uses two main selection criteria: Best-in-class and thematic approach:

The Best-in-class companies are screened based on their sustainable and responsible behavior. Dexia is investing in all the sectors, only arms are excluded, not tobacco and nuclear energy for example. The Best-in-class criteria vary regarding the challenges of different sectors. Only the 35 % of the best performing companies are included in the SRI universes.

*“It can be a bad sector. It can be tobacco for example, but we are selecting the best, so we are trying to pay attention to environment, corporate social responsibility etc. of these companies.” -Interview Dexia*

The analysis is done in both, micro and macro levels. Macro level analysis considers usage of natural resources, efforts to fight against climate change, healthy products, ageing populations,

usage of new technologies and developing population. The micro level analysis screens companies on how they take into consideration the different stakeholders in the long term, including investors, employees, environment, society, clients and suppliers.

Similar analysis is done for the countries regarding their social, natural and human capital finally; companies are rated based on both, sector (macro) and company (micro), analysis (Dexia Sustainable Investment funds 2011).

**Dexia Thematic funds** invest in companies having their main activity in contributing to the long term sustainability in the fields of waste management, water use and renewable energy. The funds also go through **corporate governance (CG) analysis**, ensuring the selected companies respect basic rules on CG and protect shareholder value. (Dexia European Transparency Code 2010) Thematic criteria i.e. positive criteria is considered more severe than best-in-class at Dexia as the sector or company needs to fulfill all the sustainability criteria.

Today Dexia has three thematic funds: Dexia Equities L Sustainable Green Planet, Dexia Clickinvest B Minimax 4 Green Planet and Dexia Clickinvest B Climate change.

Dexia uses the **best-in-class criteria** for the majority of its SRI funds, because the easiest way to classify companies.

*“We use Best-in-class criteria the most, because it is really difficult to find companies that fulfill all the sustainable criteria.” - Interview Dexia*

In addition to best-in-class and thematic screening, companies have to go through the **norm based screening criteria**, ensuring there are no activities in controversy with the ten principles of UN Global Compact. Finally companies are screened by **armament exclusion** criteria.

Dexia was recently excluded from Triodos Sustainability portfolio, because it revealed to have controversy activities in Israel. Today Dexia is selling its Israeli subsidiary.

*“We sell it, so if will be ok, but what we do is the best we can do. It is not that because a company is in the best in class universe it has a proof for the rest.” - Interview Dexia*

The selection of SRI is done by Dexia Asset Management constituting of 20 in house specialists, including ten SRI specialists. Dexia also uses external information provided by Vigeo Group,

RiskMetrics Group, Governance Metrics International (GMI) and Ethix SRI Advisors. In addition, Dexia consults stakeholders such as media, NGOs, industry associations, academic experts, etc. Moreover, Dexia has an external advisory board of five independent SRI experts supervising the SRI criteria. The criteria are reviewed every 24 months and the board is meeting 3-4 in a year (Dexia Core SRI Transparency Code 2011).

Dexia used to collaborate with Ethibel, but its clients did not know the organization well or put a lot of importance on external control organization. External control was also expensive. Dexia decided to create its own criteria in 2005. Ethibel still controls one SRI product: Dexia Life values insurance fund. The criteria are largely based on BEAMA's minimum norm for SRI, as it is clear and comprehensive.

Also Dexia Asset management has **engagement activities**, including a proxy voting policy of a "Proxy Voting Committee" which includes independent external members. Dexia AM votes in favor of resolutions that uphold the principles of sustainable development. In addition, Dexia is indirect dialog with companies, supports collective engagement activities and participates in CSR working groups. In 2009, Dexia had more than 150 direct engagements (Dexia Core SRI Transparency Code 2010).

The figure 19 resumes the screening criteria of Dexia SRI funds.

**Figure 19: Screening of Dexia SRI funds**

Dexia SRI funds	
Best-in-class	Thematic funds
<ul style="list-style-type: none"> <li>• Micro and macro level analysis</li> <li>• 35 % of CSR leaders of the sector</li> </ul>	<ul style="list-style-type: none"> <li>• Environmental &amp; Technical analysis</li> <li>• Corporate Governance sustainability analysis</li> </ul>
Armement exclusion + norms based exclusion	
<ul style="list-style-type: none"> <li>• Vigeo, Risk metrics Group, GMI, Ethix</li> <li>• External advisory board</li> </ul>	<ul style="list-style-type: none"> <li>• Vigeo, Risk metrics Group, GMI, Ethix</li> <li>• External advisory board</li> </ul>

Source: Dexia European Transparency Code 2010 (adapted)

When comparing the investment universes and company positions of Dexia Sustainable Europe fund to a non-SRI fund Dexia Equities B Europe (figure 20 on the next page) we can conclude that six of the top ten (%) companies in the SRI fund are also appearing in the TOP ten (%) of the

non-SRI fund. Most of the company shares are bigger in the SRI fund, than in the non-SRI fund (Dexia Asset Management 2011).

**Figure 20: Comparison of Dexia SRI and non-SRI fund**

<b>Dexia Sustainable Europe</b>		<b>Dexia Equities B Europe</b>	
Principal positions		Principal positions	
Repartition	%	Repartition	
HSBC HOLDINGS PLC	3,9 %	NESTLE SA-REG	4 %
NESTLE SA-REG	3,7 %	ROYAL DUTCH SHELL PLC-A SHS	3,9 %
ROYAL DUTCH SHELL PLC-A SHS	3,1 %	GLAXOSMITHKLINE PLC	2,8 %
VODAFONE GROUP PLC	2,9 %	HSBC HOLDINGS PLC	2,6 %
DANONE	2,9 %	VODAFONE GROUP PLC	2,4 %
ROCHE HOLDING AG-GENUSSCHEIN	2,5 %	TOTAL SA	2,3 %
BG GROUP PLC	2,5 %	BG GROUP PLC	2,2 %
ROYAL DUTCH SHELL PLC-B SHS	2,3 %	DANONE	2,2 %
SANOFI-AVENTIS	2,1 %	BP PLC	2 %
VEOLIA ENVIRONNEMENT	2,1 %	RIO TINTO PLC	1,9 %
<b>Total</b>	<b>28 %</b>	<b>Total</b>	<b>26,3%</b>

Source: Dexia Asset management 2011

### **2.2.3. Discussion**

The SRI screening methodology at KBC and Dexia is in line with the Core SRI established by Eurosif: The evaluation is based on Best-in-class, thematic and norms based criteria. In addition, both banks have engagement and proxy voting committee defending SRI investors' values. Neither of the banks is classifying their SRI funds by the four generations criteria.

As discussed in chapter 3.2, all Belgian banks are obliged to exclude controversial weapons from their investment portfolios according to a law in Belgium, and therefore it is no longer considered SRI criteria. Dexia is using only this exclusion criterion and their Best-in-class funds are investing in all the sectors, whereas KBC excludes other controversial sectors such as tobacco, defense and gambling. Both of the banks are investing in companies using nuclear energy, but KBC has additional screening criteria for nuclear energy: a company is excluded if 50 % or more of its energy is derived from nuclear energy. Nevertheless, neither of the banks is excluding companies related to GMO, oppressive regimes, animal testing and harmful substances for the environment, like Triodos for example (Chapter 4.1.1). SRI is still clearly distinguished from non-SRI products. SRI has become a mainstream only regarding the exclusion of controversial personal armaments, which is regulated by law.

SRI portfolios screened respecting the best-in-class criteria are less diversified than non-SRI portfolios. Moreover, the best-in-class companies can also be found in non-SRI portfolios. On the one hand, this could mean that many big companies have improved their sustainability practice. On the other hand banks could have difficulties in finding companies fulfilling the overall sustainability criteria and therefore keep their sustainability criteria rather loose.

The SRI selection procedure could be more rigorous: Dexia was recently excluded from Triodos SRI Universe, as one of its subsidiaries revealed to finance controversial activities in Israel (Triodos 2011). Dexia was violating the principles of UN Global compact, and now selling its activities in Israel due to stakeholder pressure. Both of the banks had BP in their SRI universe until the oil spilling accident in the Gulf of Mexico. These examples prove that banks are rather reactive in their SRI analysis. It seems they still want to keep the selection criteria as loose as possible in order to have broader investment universes.

Both banks have an in-house SRI team and an external board consisting of academic experts. Nevertheless, some differences exist. Whereas the KBC external board determines the SRI universes, Dexia external board has more a monitoring role. Dexia is reviewing its SRI criteria once in 24 months, KBC once a year. KBC is also having meetings with the external board more often than Dexia. In addition, KBC has an external environmental board monitoring the ECO funds. Dexia is mainly using the criteria defined by BEAMA, which has been criticized by Belgian NGOs for its loose exclusion criteria. In order to ensure the sustainability of its SRI funds, Dexia could collaborate more closely with the external board.

Based on these facts, the KBC criteria seem to be more rigorous than Dexia SRI criteria (figure 21 on the next page).

**Figure 21: Comparison of the criteria of Dexia and KBC**

	<b>KBC</b>	<b>Dexia</b>
Exclusion criteria: sectors	<ul style="list-style-type: none"> <li>• Controversial weapons</li> <li>• Defense</li> <li>• Tobacco</li> <li>• Gambling</li> <li>• (Nuclear energy)</li> </ul>	<ul style="list-style-type: none"> <li>• Controversial weapons</li> </ul>
Exclusion: companies	<ul style="list-style-type: none"> <li>• Strategic nuclear weapons</li> <li>• Companies not respecting KBC nuclear energy policy</li> <li>• <b>Violation of UN Global compact</b></li> <li>• Activities in controversial countries</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Violations of UN Global compact</b></li> <li>• Armament exclusion</li> </ul>
Best-in-class	<ul style="list-style-type: none"> <li>• 40 % best performing companies</li> <li>• 20 % best performing of energy and mining</li> </ul>	<ul style="list-style-type: none"> <li>• 35 % best performing companies of all sectors</li> <li>• 50 % of countries</li> </ul>
Thematic, ECO funds	<ul style="list-style-type: none"> <li>• 50 % of turnover of sustainable activities</li> <li>• Water</li> <li>• Agriculture</li> <li>• Climate change</li> <li>• Alternative energy</li> </ul>	<ul style="list-style-type: none"> <li>• Environmental &amp; technical + CG analysis</li> <li>• Energy</li> <li>• Climate change</li> <li>• Water</li> <li>• Waste management</li> </ul>
Screening	<ul style="list-style-type: none"> <li>• In-house SRI team</li> </ul>	<ul style="list-style-type: none"> <li>• In-house SRI team</li> </ul>
External board	<ul style="list-style-type: none"> <li>• Independent Advisory board</li> <li>• Environmental committee</li> <li>• Determines the SRI criteria</li> </ul>	<ul style="list-style-type: none"> <li>• External advisory board</li> <li>• Monitoring role</li> </ul>
Control	<ul style="list-style-type: none"> <li>• Every 12 months</li> </ul>	<ul style="list-style-type: none"> <li>• Every 24 months</li> </ul>

## 2.3. Promotion of SRI at Dexia and KBC

This section looks into the promotion of SRI at KBC and Dexia. The first chapter describes the marketing strategy and methods of SRI products in each bank. Secondly, we are looking at the information on banks' retail websites: how easy it is to find information on SRI and what information is available?

### 2.3.1. External and internal marketing of SRI

The following chapter describes the marketing of SRI products for retails clients, internally for banks personnel and future goals and challenges regarding SRI. The information is based on the interviews with the responsible of SRI of each bank.

### 2.3.1.1. KBC

When asking about the **baseline** of KBC SRI Products, the interviewee looks for the latest brochure dating from 2008, where KBC SRI values are written: risk versus return, transparency and independency. KBC wants to convey these values in all its communication regarding SRI.

**Bimonthly newsletter “Sustainable Investment Monitor”** gives latest news on SRI. It is published regularly on KBC Asset management (AM) and KBC and CBC retail websites. The news is sent to current SRI investors, and everyone can subscribe it on the website. KBC does not send it to potential SRI investors.

In 2009 KBC organized 15 **events** on SRI. In 2010 they KBC had only one **online meeting**: SRI chat on De Tijd Newspaper’ web platform, where public could ask questions regarding SRI from internal and external SRI experts of KBC. The bank organizes seminars on SRI approximately twice a year, in which 100-150 KBC clients are attending. The **next seminar is on 20th June 2011**. The invitation to the seminar is exclusively distributed by the local branches, or it can be demanded from the KBC SRI department by email.

Information on SRI is mainly distributed through **Internet**, where clients can find specific documents on SRI such as SRI passport declaring sustainability of each SRI fund, European transparency code, prospectus etc.

When asking about SRI labels, the interviewee makes a clear distinction between KBC label and other SRI labels such as Ethibel. SRI from KBC is a brand.

*“Ethibel is a competitor of us. Ethibel is a brand of SRI, as we are a brand of other liabilities. So Ethibel, or Vigeo, or sustainable asset management, they have got their own methodology, their own set of criteria, and they decide their own values and principals and the companies who are in line with their values and principles. We do the same at KBC, we offer our investment products according to our methodology to our clients.”-*  
Interview KBC

Retail clients are not the priority group to whom KBC is marketing SRI products. SRI is offered only for clients who tell CSR is important for them. Today KBC targets mainly institutional

clients and high net worth individuals as they are demanding SRI clearly more. There is no demand from retail customers.

*“Clients are not walking in the streets and thinking that I have to go to my bank and do some investments. So the market is driven by the offer, not by the demand. For the institutional clients the demand is more concrete and also more demanding for more SRI criteria.” -Interview KBC*

Nevertheless, the interviewee acknowledges that clients do not demand investment services in general; it is the bank who contacts clients. Investment decisions are done during **personal meetings at local branches** based on client’s needs, plans and risk appetite. Moreover, he would not recommend SRI in these meetings. **SRI is not a standard proposal.** In general KBC does not want to highlight any particular products in their advertisement:

*“There is no dedicated publicity on investment products as we want to get rid of that product approach. Instead, we want to manage portfolios. In a relationship with a client you have to know the needs and the values of our clients, and construct the portfolio. We need to get rid of buying and selling the product of the market as it is counterproductive.” -Interview KBC*

The main responsibility of marketing SRI funds is on financial advisors at the local branches: They compose client’s portfolio, on which SRI department has no impact. Therefore the internal marketing is more important at KBC than external marketing of SRI.

All the new financial advisors at KBC receive **training** on SRI on a voluntary basis. The training is organized twice a year and it is open for all the employees who want to update their knowledge on SRI.

KBC does not have any SRI incentives for its personnel, as no particular product should be privileged.

Advisors can find **support information** on SRI on KBC intranet. In addition, each advisor is appointed a supporting advisor to whom they can turn to if they need any additional information. Whenever they launch a new product, KBC distributes **leaflets or brochures** to all the local branches. Latest SRI product is launched at CBC bank in the French speaking area of Belgium.

KBC does not distribute recent SRI research results to its personnel. There is no internal SRI news forum; personnel can check news on KBC asset management website, which is open to public.

When asking about **sales arguments** on SRI, the interviewee is reflecting for a while. The main arguments to choose SRI are the values used in screening and that SRI does not have a negative impact on fund's performance.

The interviewee believes it will still take a long time before the personnel at KBC fully adopts SRI products.

*"They don't know it so well, although we are now almost 20 years active in SRI, it is a long time process to keep informing and convincing people." -Interview KBC*

In the future, KBC wants to stay the number one on the Belgian market and attract institutional clients. KBC also wants to have a complete offer of SRI products and increase the volume of SRI by 10 %.

The biggest challenge is to convince people to invest in SRI, as they doubt the performance and trustworthiness of SRI. The interviewee believes banks' corporate communication lacks credibility and SRI is perceived as a commercial technique.

*"The difficulty is how to convince the people, how to inform people with objective information. We are a bank, and banks are not the most... people don't like banks. There is a certain image of banks and the communication we give is influenced by it." -Interview KBC*

He believes the only way to sell more SRI is transparent and objective communication. It is also difficult to convince personnel to sell SRI products as they will be considered responsible if something goes wrong with the performance of SRI.

*"Because, if I sell to you a mainstream product and it does not go well, ok bad luck; if we offer you an SRI product and it goes wrong it can go wrong because of the SRI element." -Interview KBC*

### 2.3.1.2. *Dexia*

Dexia has a **baseline** for its SRI products: clients win two times. Firstly, clients win for their portfolio, because SRI performs well, and secondly they have a chance to contribute to the society. Nevertheless, Dexia is prudent in communicating about SRI.

*“It is a very critical slogan, because clients want evidence such as figures. Why is only Dexia saying that? If it true why not all the banks do that?” -Interview Dexia*

When it comes to thematic funds, the interviewee thinks people actually invest in them just because they are profitable, not because they are sustainable.

Dexia made several SRI campaigns in 2008, but stopped because of the financial crises. Since then, it is more important to recover and keep the customers, not to push certain products. The main objective is to offer products, which are best for the clients.

Dexia does not organize seminars or PR on SRI. The main reason is that it is difficult to communicate the impact on clients if they invest in SRI. Dexia neither makes mass communication about SRI. The only communication is made during personal meetings at the branches.

*“Normally when you make a campaign you have to communicate about something that is really easy. And SRI is not easy at all...It is very difficult to make communication about SRI, because it is something good but not concrete. It is difficult to communicate the impact on clients if they invest in SRI..... Communication about conventional products is really easy, for example 5 % yield, that is something that people understand and we cannot do that with SRI.” -Interview Dexia*

The interviewee believes Dexia has no **brochures** about SRI or they are not up to date. There is no need for brochures as there are too few retail clients demanding SRI. (*Note: An updated 12 pages long SRI brochure does exist by Dexia Asset Management*).

Each SRI fund has “sustainable” written in its name. **Labels** such as Ethibel are necessary only when SRI communication is not easy, for example for biological sector. But the interviewee underlines that for the moment labels do not matter, as the clients are reluctant to invest in SRI.

Qualitative research has shown that clients do not mention sustainability among the most important investment criteria.

*“But the biggest problem we have is the customer. Customer does not want SRI. 95% of the customers will never use SRI as a selection criterion for investment.” -Interview Dexia*

The performance of SRI is the same; but it takes a lot of time to communicate it to clients as the interviewee believes SRI is negatively perceived. It is essential to communicate what is SRI, not that Dexia is the leader in SRI. He thinks clients are critical about banks' sustainability and think SRI is just corporate branding. Dexia believes in SRI, but uses very prudent communication as they are afraid to lose clients if they are proposing more SRI.

*“If we speak about SRI investing to our clients, they directly think they will lose money and have lighter performance than other funds and it will cost money to clients to choose SRI. Because if we do that, they will go to our competitors KBC or BNP Paribas, because if we are only offering sustainable products they think their performance will be bad.” -Interview Dexia*

Also at Dexia, **internal communication** on SRI is more important than external marketing, as the financial advisors are the main responsible offering updated information on SRI for clients:

*“We have a lot of internal communication to use during the meeting, but nothing to give to clients.... This is why we make sure that everything is up to date to our sales force to make sure that if the customer has the profile to invest in SRI, he already has the information he needs to communicate to customer. So there is a lot of material what is sustainable on the internet site, customer can always subscribe to the sustainable brochure of Dexia asset management.” -Interview Dexia*

Dexia does not organize a specific training for SRI. Nevertheless, new advisors need to know all the products, also SRI, when they start working at Dexia and there is an **obligatory training on all Dexia products**.

Dexia does not have incentives or support tools SRI for the sales personnel. Moreover, the advisors have special access to Dexia AM intranet, from where they can find all the information

on all the funds. Nevertheless, the interviewee acknowledges it would be good to have more support tools for SRI marketing.

*“But that would be good to have that. If I really wanted to sell more SRI I would do that. We want, but without investing so much into it. Dexia has lots of problems for the moment. Our main concern now is to give a good product to customer and not to sell sustainability. If a customer does not really require SRI, we don’t want to push SRI.” - Interview Dexia*

Dexia has established **sales arguments** on SRI.

*“We have lots of sales arguments why SRI has the same performance, what is Best-in-class, a good explanation about the difference.” -Interview Dexia*

It takes a lot of time to convince people to invest in SRI, because it is badly perceived. If there is a problem with SRI fund’s performance, Dexia will be responsible.

*“So why should Dexia take big responsibility and danger the relation we have with our customer only for selling more SRI?” -Interview Dexia*

Actual SRI marketing is reactive. Nevertheless, in the **future** Dexia wants to invest more in SRI. Dexia is marketing eco loans and solar panels because the government is giving a tax deduction on those products. Governmental incentives could help selling SRI products significantly. Dexia wants to make products for everyone, not only for SRI investors, and therefore now concentrating only on marketing SRI products which are simple and easy to communicate. SRI investment funds are not easy to communicate. The interviewee believes there should be an external entity promoting SRI, nothing to do with banks, because Dexia alone cannot change people’s mindsets. On the other hand, Dexia does not want to invest in marketing SRI, because the profitability of SRI is the same as non-SRI funds.

*“We are now focusing more on energy loans and there we have a lot of objectives... We decided to make a lot of communication about that because those products are clear for clients and society; they are really easy to sell, so we decided to focus on those products.” - Interview Dexia*

### 2.3.1.3. Discussion

The figure 22 demonstrates the existing marketing methods of KBC and Dexia.

**Figure 22: External and internal promotion of SRI at KBC and Dexia**

	KBC	Dexia
<b>External marketing</b>	<ul style="list-style-type: none"> <li>• Bimonthly newsletter: SRI monitor (on request)</li> <li>• SRI seminars twice a year</li> <li>• Information on Internet</li> <li>• Financial advisors at the branches</li> </ul>	<ul style="list-style-type: none"> <li>• Information on internet</li> <li>• Financial advisors at the branches</li> <li>• (SRI brochure on Dexia AM webpage)</li> </ul>
<b>Internal marketing</b>	<ul style="list-style-type: none"> <li>• Voluntary training on SRI products</li> <li>• SRI Support from KBC SRI department and advisors</li> <li>• Leaflets of new products</li> <li>• Sales arguments: performance, values</li> </ul>	<ul style="list-style-type: none"> <li>• Obligatory training on all products, SRI included</li> <li>• SRI information on intranet</li> <li>• sales arguments: performance</li> </ul>

Based on the interviews, marketing of SRI for retail clients is very reactive.

If marketing material exists, it is available only on the website or clients can subscribe for an online newsletter. In any case, banks do not proactively inform clients about SRI; it is on clients' responsibility to search information on SRI. Banks were marketing SRI more proactively in 2008 and 2009. Today they do less marketing on SRI and have decreased their SRI products. Research results show retail clients are not that interested in SRI products.

There are several reasons why SRI is not promoted for retail clients:

First of all, it is possible to sell more SRI only if clients are convinced about the performance of SRI. Banks are reluctant to convince their clients, because if SRI fund fails, clients will blame the SRI element and put the responsibility on banks and their personal advisors. Banks seem to be afraid to lose clients and therefore selling SRI only if their clients demand it. Nevertheless, SRI is promoted more for institutional investors, because they demand SRI more and banks do not have to convince them of the benefits of SRI. Furthermore, retail clients are skeptical about the credibility of bank's corporate communication and it is difficult to promote SRI without external support such as government incentives. Finally, banks don't want to invest time and money on marketing SRI, as they will not generate any additional profits even if they sell more SRI.

Government incentives seem to be highly appreciated, especially by Dexia. An external entity could help to promote sustainable products to the public, as banks do not necessarily have the most credible image among consumers when it comes to sustainability.

Neither of the banks wants to push specific products for their clients. It is more important to listen to clients' needs and propose products only after analyzing carefully their values, future plans and risk profile.

Banks have their own criteria for SRI and they want to promote SRI under their own brand. External label such as Ethibel is considered as a competitor, too expensive or useless.

Internal marketing is more important than external marketing as financial advisors are the main responsibilities for marketing SRI. Nevertheless, basic training and Intranet seems to be the only information source on SRI the banks provide to their personnel.

Regarding the recommendations of the ORSE guide of marketing SRI, KBC and Dexia have still a lot to do: neither of the banks provided online support tools, SRI support teams or latest research results etc. to their personnel or use brochures and posters on marketing SRI to retail clients.

### **2.3.2. SRI information on banks' website: critical analysis**

As banks' websites are the main source clients can find information on SRI products, the websites of the two banks were analyzed. The goal of the analysis was to find out, how easy it is to find information on SRI, what kind of information can be found and what is the level of visibility of SRI compared to classic investment products on banks' retail websites.

The ORSE promotion guide for SRI is used as a benchmark: the questions (appendix 7) are based on the best practices of SRI marketing: *is there a link to SRI on 'savings and investments' section? Does the bank have a dedicated website for SRI? How much information is given? What kind of information is given? Are there contact details for additional information? etc.*

First of all, the banks' retail websites were analyzed as it is the first information source for retail clients. Secondly, we took a look at the banks' Asset Management websites, which are more specialized in investment products. The research was done only on the French language websites.

### 2.3.2.1. KBC

KBC has two main categories in *Savings and Investments* section: *Products* and *additional information*. There is no direct link to SRI on the *products* menu, and when clicking on the *funds*, SRI is not mentioned. Nevertheless, the *additional information* section has a link on the sustainable investment page. This link leads to dedicated SRI portal, which turns out to be a mirror of the KBC asset management SRI page.

KBC SRI portal contains a video advertisement on sustainable investments. In addition, we can find information on the performance of SRI, arguments on why to choose SRI, selection method, publications, frequently asked questions, screening results and contact information. Also the latest news “Sustainable Monitor” and additional brochure on the performance of SRI can be downloaded.

When it comes to the message of SRI, KBC believes that SRI funds can make a difference and that sustainable consumption and production in the long term are becoming a norm.<sup>9</sup> SRI funds perform as well as classic funds: companies are selected based not only on the SRI criteria but also on the criterion of return (KBC 2011)

There are no direct contact details of SRI specialist on the portal, but we can ask questions and give feedback by writing an email to [duurzaam.beleggen@kbc.be](mailto:duurzaam.beleggen@kbc.be).

When searching for socially responsible investment “*Investissement socialement responsable*” with the search function, two results were found: the first on SRI website and other one on KBC news achieve. With sustainable investment “*Investissement durable*”, four results appear, of which only one is relevant to SRI. Another link directed to news archive.

KBC asset management home page has a direct link on the dedicated SRI website on the menu of “*Products and services*”. The SRI site is exactly the same as retail website. Regarding the

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<sup>9</sup> *Chacun prend peu à peu conscience de la nécessité de garantir santé et prospérité aux générations suivantes. La production et la consommation durables deviennent la norme. L'avenir est à ceux qui investissent dans des entreprises et des pays ayant une vision durable à long terme.*

<https://www.kbc.be/IPA/D9e01/~F/~KBC/~BZME1EA/BZKCO73/BZKCO75/BZKCO70/BZMKO10/BZMKAVK>

interview with the KBC SRI expert, it is interesting to know how easy it is to find the SRI transparency code and SRI passport. SRI passport can be found by clicking on different funds and “fund fact sheet”. In order to find KBC European transparency code, we need to search it on Google, as KBC AM does not have a web search function. When searching “European transparency code” KBC retail website we do not find any results.

### 2.3.2.2. *Dexia*

Dexia has no SRI link on the *Savings and Investment* home page. We can choose from six different options: *Product of the month, products by category, market listings, products by risk profile, products with a specific goal and publications*. Sustainable enterprise option can be found from *products with a specific goal*.

Dexia retail website has only one page for SRI. It contains basic information on SRI performance, sustainable investment and SRI selection methods. The page also lists all the Dexia SRI funds. We can click the funds and find complete fund fact sheets, prospectus etc. In addition, the page has a link to a Dexia SRI brochure. Nevertheless, the link leads to Dexia Asset management home page, not directly to the brochure. The home page has a link to Dexia SRI Webpage, but we cannot find a link to the SRI brochure.

Dexia retail SRI website has no contact details of an SRI specialist. Nevertheless the funds can be subscribed online.

Dexia’s message to clients is clear: SRI funds are for everyone who wants to contribute to the society; there is an SRI option in all the asset classes (Dexia 2011).<sup>10</sup> Similar message can be found on Dexia AM website: “*Hence, SRI is intended for any investor, whether private or institutional, wishing to widen their range of issuer analysis to identify all short-, medium- or long-term portfolio risks and opportunities.*” Moreover, it is interesting to see that Dexia is

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<sup>10</sup> *Depuis des années, les investissements durables occupent une place à part entière dans notre offre ainsi que dans le portefeuille de très nombreux investisseurs. Ils s’adressent à l’investisseur qui veut faire un geste pour une société meilleure et un environnement plus beau. À tout le monde, donc...*  
<https://www.dexia.be/info/fr/iws/home.html#page=%2Finfo%2FFFR%2FEpargnerEtInvestir%2FEpargnerDansUnBuiPrecis%2Findex.aspx&pan=>

calling SRI as Sustainable and Responsible Investing instead of Socially Responsible investing (Dexia AM 2011).

Dexia Asset Management home page has a direct link to the dedicated SRI website. The site gives a lot of information on SRI: methodology, definitions, updated news, research results, Q & A and European Transparency Code. Nevertheless, unlike KBC, there is no company screening results available for clients. Moreover, newsletter “Looking ahead” published 3-4 times a year can be downloaded on the SRI website. Nevertheless, in order to find the Dexia SRI brochure, we have search for it on the website with “SRI brochure” and we finally find the PDF.

When searching sustainable investment, *Investissement durable*, on Dexia retail website, ten different options can be found and first one directs directly to the SRI information page.

### 2.3.2.3. Conclusions

The figure 23 compares the retail websites of Dexia and KBC.

**Figure 23: SRI information on retail banks’ website:**

	KBC	Dexia
SRI link on home page	no	no
SRI link on “savings and investment” page	section “complementary info”	no
Dedicated web portal for SRI	yes, same as KBC AM	no, only one page
Company screening results	yes	no
Newsletter download	SRI monitor: every 2 months	no
Video advertisement	yes	no
Q & A	yes	no
Contact information	email	no
Internal search SRI “investissements socialement responsables”	1-4 matches	10 matches
Download SRI brochure	SRI news monitor and brochure on performance	yes, but link directs to Dexia AM home page
Direct access to SRI product information and online subscription	yes	yes
European transparency code	no	no

KBC has a dedicated SRI website on both, retail and asset management websites. Nevertheless, the portal is relatively hard to find on the retail website as it is placed on the *Additional information* menu, not on the *products* menu. The portal can be found with the search function, although it produces only one result leading to the SRI portal. KBC retail website has a lot of

information on their SRI funds. Even though the European SRI code cannot be found easily, similar information can be found on the SRI website “methodology” and “Q&A”.

It is hard to find information on SRI on Dexia retail website, unless clients know exactly which fund to look for. Dexia retail website has only one page dedicated for SRI. Moreover, the page is not very client friendly when it comes to supplementary information on SRI: there should be a direct link to SRI brochure or to the dedicated SRI website, not to Dexia Asset Management home page. Furthermore, there is a significant difference between Dexia Asset Management and retail clients’ websites, since the Asset Management website contains much more information on SRI than the retail website. It seems SRI is targeted to professional and institutional investors, who go directly to Asset Management webpage.

Banks’ message on the internet differs a little from what was learned from banks’ SRI responsible: As there are not capital protected SRI products, SRI is not offered to retail clients. Conversely, KBC website says SRI is *becoming a norm* and Dexia is promoting SRI as *a product for everyone*. Therefore, the messages on the websites are not corresponding to the reality. Moreover, both banks make a clear distinction between SRI and other funds on their websites, as SRI is not mentioned on the *product* menus.

KBC is calling SRI Socially Responsible Investing, whereas Dexia is talking about Sustainable and Responsible Investing. Referring to chapter 1.1 of the first part of the thesis, it seems that Dexia wants to highlight the profitability of SRI over the social impact.

Banks could improve their retail websites when it comes to information on SRI. Since both banks have well updated SRI page or a portal, there should be a direct link to SRI on investment product menu. For the moment banks do not make it easy for retail clients to find information on SRI on their retail websites. Moreover, it seems SRI is promoted for clients who already know it and will find information about it proactively.

### 3. Marketing of SRI by the local branches

Financial advisors at the local branches are the main responsables of marketing SRI to retail clients. This chapter aims to find out how Dexia and KBC are marketing SRI in reality: *How the marketing of SRI at the local branches is corresponding to banks' marketing message on SRI and how are the local advisors responding to sustainable investors' needs?*

In order to answer the research question, we decided to use the mystery shopping as a research method and visit five local branches of each bank, where we proposed to invest a certain amount of money in SRI products.

The chapter is divided in four sections: firstly, we introduce the mystery shopping research method. Secondly, we introduce the method of analysis and thirdly we report the results of the mystery visits. Finally, we analyze the results regarding the theoretical framework and the marketing objectives of the two banks.

#### 3.1. Mystery shopping as a research method

*“Mystery shopping is a form of participant observation using researchers to deceive customer-service personnel into believing that they are serving real customers or potential customers”. The method aims at monitoring the consistency of the delivery of a service (Wilson 2001).* Mystery shopping has been used in service sectors such as banking to find out how their service personnel is addressing the client's needs, preferences and priorities (Hudson etc. 2008). The method requires detailed planning on how to proceed in the research situation and on which details should be paid attention to. Moreover, the mystery shopper needs to be patient, accurate, bear controversy situations as well as observe small details, keep information confidential and above all remember the mystery visit well (Newhouse 2004).

In 2007, the customer research company *Test –Aankoop*, made mystery visits to 38 local branches of 29 banks in Ghent, in the Dutch speaking part of Belgium. The purpose was to test how the banks are communicating about their SRI products. The results revealed banks' basic communication on SRI needs to improve. In many cases investors received no information or erroneous information on the sustainability of SRI. In 7/38 cases a non-SRI product was offered as a SRI. In 13/38 cases, the advisors could not give correct information of external and internal

control of SRI. Only 26/ 38 banks told the performance of SRI is similar to non-SRI products. Often no reference was made to bank's website. In most of the cases investors received a technical paper or no information material on SRI (Test-Aankoop 2008).

We made ten mystery visits to the local branches of KBC and Dexia KBC in Brussels area in order to test how the two leading SRI Banks are performing in 2011 compared to the research made in 2007. The purpose was to find out, what kind of **knowledge** financial advisors have on SRI and what kind of information is given on **performance** and **external control** of SRI funds. In addition, it was interesting to observe if the advisors are **truly concerned** about SRI or more interested in the financial aspects and finally, what kind of SRI **information material** banks give.

Same investment profile (cover story) was used for all the visits:

- Investment of 100 000 € in a long-term
- Risk profile: neutral
- Time 10 years

An investment amount of 100 000 € was chosen so that the advisors would be motivated to tell enough about different SRI options. The following cover story was developed for the mystery visits: As a mystery shopper, I will inherit more or less 100 000 € in the near future and would like to consult the different SRI options in order to make a right choice as soon as possible I have the money. My boyfriend told me about SRI and therefore I would like to know more about it. I will not decide now, but later with my boyfriend as he will help me to make the decision. Therefore, I need documentation at the end of the visit. Nevertheless, I will not ask any documents as I want to see if the sales person is offering them spontaneously. If not, I will ask in the end of the visit.

It was important that the financial advisors were not aware of the research purpose and behaved as they would in a normal situation. A semi-structured interview guide was deemed the best option for the mystery visits: it allowed making sure all the relevant issues were covered systematically and at the same time certain flexibility to pursue details regarding the particularities of each visit. The questions (appendix 8) could be asked in different order depending on the context, as it is very important to ensure the situation is as real as possible

(Richie & Lewis 2003, p. 115-117). Moreover, the questionnaire was not used in the research situation, but more as a guide to memorize the details and to note the most important issues after the visits.

Before the mystery visits, the researcher prepared carefully by reading about the financial products and the consultation process. The questions and the cover story were previewed with the thesis supervisor and the contact person Mr. Coeckelbergh from Crelan. All the visits were carried out in French and therefore the interview guide is also written in French (appendix 9).

### **3.2. Method of analysis**

The ten mystery visits were carried out between 11<sup>th</sup> and 20<sup>th</sup> of April at the local branches of KBC and Dexia in Brussels. In some cases the meeting was fixed in advance and some branches were visited spontaneously without a fixed meeting. Each visit lasted one hour on average, some only half an hour and some 1.5 hours. After each visit, information was written down in detail regarding the procedure in general and especially concerning the research questions (appendix 10).

According to Richie & Lewis (2003, p.212-244) the qualitative analysis is divided in three essential parts **1) Data management, 2) descriptive accounts** and **3) explanatory accounts**. The analysis starts with data management, which contains several steps:

- Familiarization with the data
- Identification initial themes and concepts
- Codification of the data and sorting the data by themes
- Summarize the data

When all the mystery visits were done, the notes were read several times and some key words were highlighted in color. The data was categorized by the initial themes in the interview guide (appendix 10) so that notes regarding each research question were located together. The data was analyzed by each theme. Eventually, all the results were put in an excel sheet using key words that made it possible to observe all the results on one page view.

In the second stage of descriptive accounts the analyst develops typologies, which enable to identify key dimensions and observe the diversity of each phenomenon. In this stage, different

patterns and themes can be classified. The mystery visit data from Dexia and KBC was first observed separately from each other. Hence, it was possible to compare the two banks regarding each theme and find possible similarities and differences between the results of the mystery visits.

Finally, in the last stage of explanatory accounts the analyst tries to find out why certain patterns or phenomenon occurs and connect the analysis with other related concepts or theories. In this stage the analysis was taken to a higher level and the data was related with the data from the interviews with the banks' SRI specialists and the theoretical framework of the thesis.

### **3.3. Mystery shopping results**

In general, all visits started with an analysis of my risk profile and investment plans. In two cases advisors used a special questionnaire to define the risk profile. Moreover, all advisors suggested to divide the 100 000 € among products of different time line and risk. The repartition was different in all cases. The more defensive the advisor estimated my risk profile; the more money was proposed to invest in less risky products. In most of the cases, the risk profile was determined rather defensive than dynamic, but I was always ready to invest a certain amount in more risky products. Moreover, a certain amount was suggested to deposit on less risky saving accounts and fixed term saving schemes, from which money could be withdrawn fast in case of an unexpected need for cash. In addition, a certain amount was proposed to invest in riskier products with a capital protection or in funds without a capital protection. When the advisors started to talk about investment products, specific questions about SRI products were asked.

The following chapters report the results regarding each theme. The results are analyzed and compared afterwards in the concluding chapter.

#### **3.3.1. *Basic knowledge on SRI***

All advisors at Dexia knew Dexia has sustainable/ethical funds. Nevertheless, the definitions of SRI the advisors gave were very vague. One (D1) did not know why SRI is called sustainable, and admitted he actually believes **SRI is only marketing** as so many companies appearing in SRI funds can be found in non-SRI funds as well. Another started to look for a word “ethic” in a dictionary (D3). In three cases, advisors knew the selection of SRI is based on certain criteria, but they could not describe it. In general, the advisors who knew there were a certain sustainability

criteria could name 1-3 key words: ecological, exclusion of child labor and arms. In two cases (D2, D3) **wrong information** was given: Dexia excludes companies producing tobacco and GMO, which is not true. Best-in-class selection criterion was not mentioned in any of the cases, even if majority of Dexia SRI funds are based on that selection criteria. After the first inquiry on SRI, the advisors could check the definition of SRI from a **fund fact sheet** on their PC and tell some basic information about it.

Everyone at KBC knew KBC offers SRI funds. Most of the advisors, 4/5 mentioned **ECO/ green funds** right away when asking about SRI. Only one (K4) could not tell at all why SRI is different from other funds. In three cases, **exclusion of weapons** was mentioned. One (K5) of the advisors gave very profound information about ECO funds and listed all the different categories: water, agriculture, climate change and renewable energy. In one case (K1), the advisor recommended a **non-SRI product**, KBC Privileged portfolio as SRI since the armament sector is excluded. Nevertheless, he gave wrong information as all the KBC funds exclude certain weapon industries based on a law in Belgium. Even though KBC excludes also other sectors, only one advisor (K5) could mention one of them: defense.

If the advisors could not answer the questions, two of them checked the information from a brochure dating from 2008, which listed all the KBC funds. Two found basic information on fund fact sheets on their PC and one introduced the KBC Asset Management SRI website.

### **3.3.2. Performance**

At Dexia, 2/5 of the advisors believed the performance of SRI is the same as non-SRI funds. One (K3) said it is lower, and the rest doubted the performance as SRI portfolios have less strategic options, which could have influence on the performance.

At KBC 2/5 believed the performance of SRI portfolio is lower than non-SRI portfolio, because other sectors such as mining are more profitable than sustainable sectors, for example renewable energies. Moreover, 3/5 at KBC believed the performance of SRI is the same as non-SRI funds.

### 3.3.3. External control

At Dexia, none of the advisors gave exact information about the external control of SRI (figure 24). Two (D2, D4) said there is an external organization **Ethibel**, which controls all the SRI funds. In reality, Ethibel controls only one SRI insurance product, Dexia Life values fund. One (D5) believed there is a European or global organization, which sends a list of sustainable companies to Dexia, but could not remember its name. The advisors probably meant a rating organization, from which banks acquire information about companies' sustainability. Nevertheless, rating organizations do not control Dexia's SRI Funds. One advisor acknowledged he did not know about the control of SRI and the last could only tell it was an SRI expert at Dexia.

At KBC, two of the advisors (K1, K5) knew that KBC has external committee of academic experts. The rest only mentioned it is KBC Asset Management or an SRI expert who selects the companies. They could not tell more, even if asking how KBC can be sure SRI funds are really sustainable. Nevertheless, two of them could confirm later during the meeting from a **fund fact sheet** that KBC has an external board controlling the selection procedure.

**Figure 24: Information about external control of SRI funds**

<b>Dexia 1</b>	no knowledge	<b>KBC 1</b>	External committee
<b>Dexia 2</b>	<b>Ethibel</b>	<b>KBC 2</b>	KBC asset management
<b>Dexia 3</b>	Dexia SRI specialist	<b>KBC 3</b>	KBC expert → external control confirmed later
<b>Dexia 4</b>	<b>Ethibel</b>	<b>KBC 4</b>	KBC expert → external control confirmed later
<b>Dexia 5</b>	European organization	<b>KBC 5</b>	External committee

### 3.3.4. Empathic communication

At Dexia, one (D1) believed that SRI was actually marketing, as same companies appeared in best-in-class funds and non-SRI funds. Even though all advisors had only little knowledge on SRI, they tried to search information on their PC and answer the questions as well as they could. In general, SRI was not recommended, as SRI funds are more dynamic and there is no capital protected SRI funds. Three advisors proposed to find more information on SRI and send it afterwards by email or post.

At KBC, one advisor changed the topic every time SRI was brought up (K2). Two were helpful, as I insisted to know more about SRI. One (K1) told he would invest in SRI himself, but in the end recommended a non-SRI product as an SRI. Two advisors did not recommend SRI, because it is not profitable and too risky. One of the advisors (K5) outstood from others: he knew a lot about SRI and gave a lot of information.

### 3.3.5. *Communication material*

Only two advisors (D3, D4) at Dexia proposed to look for more information on Dexia's website (figure 25). In both cases, they referred to Dexia retail bank website, not to Dexia Asset Management SRI website, which has significantly more information on SRI. Moreover, Dexia has a SRI brochure, which can be downloaded on Dexia Asset management website. Nevertheless, none of the advisors gave the brochure, but one sent it afterwards by email as he promised to contact Dexia Asset management for more information. Fund fact sheets were only material the advisors gave on SRI funds. In one case (D3) advisor gave a newsletter about SRI, dating back in 2007.

3/5 advisors at KBC gave a reference to KBC Asset Management website. None of the advisors mentioned or gave the invitation to the SRI event KBC has on 20<sup>th</sup> June. Everyone printed out 1-5 fund fact sheets of different SRI funds. In general, the advisors gave 3-7 brochures of non-SRI products. One advisor (K5) gave a print out of the SRI newsletter "Sustainable Investment Monitor".

In addition to SRI material, all the advisors in both banks gave several brochures on non-SRI products. The brochures were at least four pages long and printed in color.

**Figure 25: Communication material/ information sources on SRI:**

<b>Dexia 1</b>	<ul style="list-style-type: none"> <li>• 3 SRI fund fact sheets</li> </ul>	<b>KBC 1</b>	<ul style="list-style-type: none"> <li>• KBC AM website</li> </ul>
<b>Dexia 2</b>	<ul style="list-style-type: none"> <li>• 5 SRI fund fact sheets</li> </ul>	<b>KBC 2</b>	<ul style="list-style-type: none"> <li>• fund fact sheets</li> </ul>
<b>Dexia 3</b>	<ul style="list-style-type: none"> <li>• Dexia bank website</li> <li>• 4 SRI fund fact sheets</li> <li>• <b>SRI newsletter 2007</b></li> </ul>	<b>KBC 3</b>	<ul style="list-style-type: none"> <li>• fund fact sheets</li> </ul>
<b>Dexia 4</b>	<ul style="list-style-type: none"> <li>• Dexia bank website</li> </ul>	<b>KBC 4</b>	<ul style="list-style-type: none"> <li>• KBC AM website</li> </ul>
<b>Dexia 5</b>	<ul style="list-style-type: none"> <li>• no material: will send info later</li> </ul>	<b>KBC 5</b>	<ul style="list-style-type: none"> <li>• KBC AM website</li> <li>• Fund fact sheets</li> <li>• <b>Sustainability Monitor</b></li> </ul>

### 3.4. Discussion

All the advisors at Dexia and KBC knew they have SRI products. Only one at KBC suggested a non-SRI fund as a SRI fund, whereas *Test Aankoop* in 2007 reported 7/ 38 advisors suggesting non-SRI as a SRI. Nevertheless, there is a **lack of basic information** on SRI, as only one of the ten advisors could give spontaneously a good basic definition of SRI funds. Most of the advisors could not define why SRI funds are sustainable and they had to check it on internet. Many of them were not sure, which sectors or companies are excluded and some gave erroneous information on the exclusion criteria. It seems that the advisors were either not enough informed about SRI or just not interested in SRI. Several of them seemed to tell the first thing coming to their mind, which was not always correct information.

Terminology such as screening and best-in-class criteria was rarely used. Advisors seem not to be familiar with the best-in class-criteria. This was surprising as Dexia should have definition of best-in-class criteria available on their intranet for sales purposes. Green and ECO funds were mentioned often at KBC, which has more thematic funds than Dexia.

The advisors knew little about **the external control** of SRI funds. Only two could tell the composition of the external committee at KBC. At Dexia, no one gave exactly the correct answer. It seems the personnel is not enough updated about the latest changes related to SRI.

In general, advisors at KBC knew SRI better than at Dexia as they gave correct information regarding the external control and screening criteria, excluding the one who recommended non-SRI product as SRI at KBC.

When it comes to **internal information** material, the personnel do not seem to be aware from where to find SRI information quickly in the sales situation. They could only find SRI fund fact sheets, which contain a general definition of sustainability and mention the external board. Some advisors found newsletters from 2007 or catalogue from 2008. It is evident that if support information about SRI exists, advisors do not seem to know about it.

The advisors gave different information about the **performance of SRI**. The results are contradictory with the marketing messages on banks' websites promoting SRI as profitable as non-SRI funds. Only half of the advisors believed the performance was the same. Moreover, the

main reasons not to recommend SRI were low performance and high risk, as SRI products are not capital protected. In addition, the advisors believed SRI funds have less strategic options or sustainable companies are not successful for the moment. The results are controversial, since the SRI responsible of the banks claimed they have sales arguments on the performance of SRI.

When it comes to **empathic communication**, most of the advisors were motivated to answer the questions regarding SRI and search for more information in case they did not know the answer. Moreover, they could have been motivated only because of the big investment amount of 100 000 €.

The advisors did not give any updated **marketing material** or information on SRI except for the fund fact sheets. None of the advisors at Dexia gave the existing SRI brochure during the meeting. Similarly, none of the advisors at KBC gave invitations to the SRI seminar in June. Nevertheless, one case at KBC was exceptional: One advisor printed out the latest SRI news “Sustainable Monitor” in color. Only few advisors gave a reference to the banks’ website, which is the main communication tool about SRI. In the case of Dexia, the advisors mentioned Dexia retail bank website, even though Dexia Asset Management website provides much more information on SRI. The advisors did not seem to be aware of what Dexia Asset Management is doing.

Moreover, even if both banks promote SRI as a product for everyone, based on the mystery visits SRI is only suitable for dynamic investor who is willing to invest in risky funds. Both banks used to have capital protected funds, but today they offer only few capital protected SRI products.

In general, the results are quite similar with the findings of the research made by *Test Aankoop* in 2007, meaning that communication on SRI could significantly improve, especially regarding the definition, external control, the performance and marketing material of SRI. Moreover, this study concentrated on the market leaders of SRI, whereas *Test Aankoop* tested all the banks supplying SRI products. Therefore, we could have expected Dexia and KBC to perform better compared to the banks investigated in 2007.

## General conclusions

The aim of the thesis was to find out how Dexia and KBC, the market leaders of SRI in Belgium are marketing SRI to retail clients. We analyzed the banks' SRI products and external and internal marketing methods based on external information and interviews with banks' SRI specialists. In addition, we made mystery visits to five local branches of each bank in order to see how the banks are marketing SRI in reality.

Before the conclusion some **limitations** should be taken into account. The study concentrated only on two cases, Dexia and KBC, and therefore the results cannot be generalized to the whole Belgian SRI market. Nevertheless, the results are indicative as the banks cover 78 % of the SRI market and are among the biggest retail banks in Belgium.

When it comes to mystery shopping as research method, only five local branches of each bank were visited in the Brussels area. Therefore, we have to consider that the personnel in the remaining branches could have given different information compared to the sample of this study. Nevertheless, as companies aim to standardized service quality, the service experience should be similar each time a client encounters a customer service personnel of a company. Therefore, the results can be considered indicative. Moreover, the mystery visits are based on a subjective judgment of one researcher. To avoid any misjudgments, the investing procedures, financial terms etc. were studied well in advance.

Moreover, in the scope of this thesis it was not possible to review all the current and past marketing material of SRI the two banks have.

The **SRI products** are divided in two main categories in both banks: Best –in-class and thematic/ECO funds. Some differences exist between the two banks. KBC is clearly leader of ECO funds whereas Dexia is offering mostly Best-in-class funds. The screening methodologies are also different. KBC criteria can be considered more rigorous as it is excluding more sectors in their SRI universe, whereas Dexia is investing in all the sectors. KBC has two external boards deciding the SRI selection criteria. Also Dexia has an external board but it has more a monitoring role. Banks do not seem to use very strict screening criteria as it could shrink the investment universes and have consequences on the performance of SRI funds.

In reality, banks' financial advisors know little about their selection criteria and the external boards they have. Advisors in both banks gave vague definitions on why SRI is called sustainable and in some cases gave wrong information regarding the exclusion criteria. At Dexia, almost all advisors gave erroneous information about the external control of SRI. At KBC, advisors knew better about the external control or they could check the information from the documents on their PC.

Even though banks tell on their website SRI is for everyone, the reality is different. The banks have few SRI products with a capital protection and therefore SRI is suitable only for investors willing to take high risks.

**Promotion** of SRI to retail clients is very reactive. Banks are still very prudent in marketing SRI for several reasons. First of all, they believe retail clients are not interested in SRI, mainly because of their perception of low performance of SRI. Moreover, banks are afraid to lose clients if the SRI funds do not perform as foreseen. In addition, there is no motivation to invest in marketing of SRI as SRI funds do not generate any additional profits. Moreover, the losses after the financial crisis in 2008 force financial institutions to concentrate 100% on keeping the existing clients. Furthermore, banks believe clients do not trust in banks and take SRI for a commercial technique. Marketing of SRI could be more proactive only if banks were supported by an external entity such as the government. Finally, it came out that communicating about SRI is extremely difficult as sustainability means several things and is not a concrete concept.

Even though recent research results have proven that SRI funds are as profitable as non-SRI funds, half of the financial advisors at the local branches told otherwise. If banks want to sell more SRI in the future, they need to make more effort in informing their personnel about the real performance of SRI.

Both banks have decreased their marketing of SRI since the 2008. The main channels to inform clients about SRI are banks' websites and financial advisors at the local branches. More information on SRI is available only on request; banks do not send information about SRI to potential investors. Moreover, banks do not want to push any specific products to their clients. Products are suggested based on a careful analysis of client's financial needs and risk appetite.

Although the banks have updated commercial material on SRI, they do not seem to use it. Dexia has a 12 page long SRI brochure, but advisors at the local branches did not seem to know about it. KBC has a SRI seminar in June, but none of the advisors gave the invitation to that event. The only SRI material advisors gave were fund fact sheets and in some cases obsolete material from 2007 or 2008.

When it comes to banks retail websites, it is relatively difficult to find information on SRI even though both banks have an existing SRI page or portal. Especially in the case of Dexia, information on the retail website is insufficient. The websites could be better linked to the asset management website that provides significantly more information on SRI.

**Internal marketing** is the most important marketing channel of SRI for both, Dexia and KBC. The banks have a general training on SRI products and their personnel can access SRI information on their Intranet. Nevertheless, several advisors could not tell or find detailed information about SRI in the sales situation. Based on the mystery visits, it seems that both banks need to improve their internal marketing tools significantly in order to respond to SRI investors' needs.

Moreover, the conclusions of the mystery visits are similar with the findings of the research made by *Test Aankoop* in 2007 (third part, chapter 3.1), meaning that communication on SRI could significantly improve, especially regarding the definition, external control, the performance and marketing material of SRI. Moreover, this study concentrated only on the market leaders of SRI. Therefore, we could have expected Dexia and KBC to perform better compared to banks investigated in 2007.

When it comes to the best practices of marketing SRI (figure 9, p.33), Dexia and KBC implement only few of them. Earlier research showed clients want banks to market SRI more proactively; nevertheless, based on the research results; Dexia and KBC are not going to market SRI proactively to retail clients in the future. The growth of SRI depends largely on client's demand and external initiatives.

**Based on the findings of the research, we recommend the banks to take the following actions to improve the marketing of SRI products to retail clients:**

In order to update local advisors' knowledge on SRI, banks should organize a **training** of SRI products on a regular basis, for example always after the yearly meeting of the in-house analysts and external board when the SRI methodology is reviewed. The training should underline the basic definitions of SRI compared to non-SRI funds, definition of Best-in-class and Thematic funds and inform the advisors of the latest research on the performance of SRI. It is crucial, because if the advisors do not believe in the performance or know about the recent research results they cannot recommend SRI to clients. Banks should make sure all advisors know about the external control of SRI as it could be an important sales argument ensuring SRI is not just a marketing technique, but actually involves consultation with academic professionals. Moreover, when the sales arguments are based on facts such as SRI is truly profitable and controlled by an external organization, advisors would not have to take the responsibility if SRI funds do not perform as foreseen.

There should be **more communication between Asset Management and retail bank**, especially in the case of Dexia. Dexia Asset Management is responsible for all the SRI funds, but does marketing only for institutional investors. Dexia could save in costs and improve its marketing by simply distributing new and updated marketing material from Dexia Asset Management to retail branches. Moreover, latest news and research results regarding SRI should be also sent to personnel at the local branches.

Advisors should have a proper **support tool**, for example a SRI portal on their Intranet. The portal should contain basic definitions of SRI and different screening methods such as ECO and best-in-class funds so that advisors could quickly confirm what is sustainable investing. The portal should also contain latest SRI news and research results as well as frequently asked questions by clients with clear and informative default answers.

When it comes to external marketing of SRI, banks could have at least one **general SRI brochure**, which they could always hand to their clients in addition to fund fact sheets. The brochure should contain concise and transparent information on what is SRI and how it differs from non-SRI funds, introduce shortly and clearly the SRI screening strategies and the external

board. It could also demonstrate past studies proving SRI is as profitable as non-SRI funds with figures. Dexia Asset Management already has a very good SRI brochure, which should be distributed also to retail clients by the local branches.

Banks should also improve the visibility of SRI on their retail websites. A direct SRI link could be added to the *Saving & Investments* menu from where clients could easily spot it. Also the internal search function regarding SRI should be improved. KBC has many SRI documents on its retail website, but they cannot be found when searching *socially responsible investment*. Moreover, Dexia should create direct links from the retail website and to the dedicated SRI website as the only existing link directs to Dexia Asset Management home page, which is inconvenient for a client searching for information on SRI.

Moreover, as banks do not want to invest in marketing SRI, they could at least update information on their websites and build support portals on intranet for their personnel as internet communication does not require big investments. As discussed in chapter 3 of the second part, banks are using permission marketing and contacting clients only once in order to avoid too aggressive marketing approach. Moreover, banks could inform their clients by sending them news on sustainable investments once or twice a year by email, which is still reasonable amount of advertising and does not require a big budget.

Moreover, many advisors did not recommend SRI, because there were no SRI products with capital protection. The SRI products Dexia and KBC have today are not ideal for retail investors, who often prefer less risky or capital protected products. Therefore, banks could develop other **less risky SRI products** such as saving accounts, which could be more interesting for retail clients.

Moreover, banks consider themselves non-reliable information sources regarding SRI. Therefore **governmental initiatives** such as tax reductions could motivate clients to invest in SRI. Banks could also work more with NGOs such as Netwerk Vlaanderen, Belsif and Ethibel and organize SRI campaigns or events in collaboration. As banks are not motivated to invest in marketing of SRI, collaboration with other organizations and working towards a common goal could be a solution. If campaigns and events are organized, banks should actively **distribute invitations** at the local branches.

During the research process, several topics that could be interesting for **future research** occurred. According to the interviewees, SRI is not mentioned among the most important factors influencing retail clients' investment decisions. Therefore, it could be interesting to investigate if retail clients even know their bank is offering SRI products, what they know about them and why clients hesitate investing in SRI. The research could help banks to develop better SRI products and improve their communication. In addition, it would be useful to know what the main motivations to invest in SRI funds are. Is SRI interesting because of some SRI products such as thematic funds are more dynamic and therefore also more profitable or because of the internal values of an investor? This could help banks to address their communication more specifically to a certain target group.

In addition, banks could carry out an internal research on advisors attitudes and knowledge regarding SRI and if they have enough information regarding SRI. Based on the research, banks could develop better trainings and new ways of informing their personnel of SRI, such as intranet portals, default questions and answers etc.

Finally, banks claimed their image is not credible, which prevents them from marketing SRI. Therefore banks should carry out regular research of their image among retail clients: why are banks not credible and how could they improve their transparency and communicate to clients more objectively. Even though it could take a long time, banks should work on their image more actively as it could help them to sell also other products, not only SRI.

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## Appendixes

### Appendix 1: The ten Principles of UN Global Compact

#### Human Rights

- *Principle 1:* Businesses should support and respect the protection of internationally proclaimed human rights; and
- *Principle 2:* make sure that they are not complicit in human rights abuses.

#### Labor

- *Principle 3:* Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
- *Principle 4:* the elimination of all forms of forced and compulsory labour;
- *Principle 5:* the effective abolition of child labour; and
- *Principle 6:* the elimination of discrimination in respect of employment and occupation.

#### Environment

- *Principle 7:* Businesses should support a precautionary approach to environmental challenges;
- *Principle 8:* undertake initiatives to promote greater environmental responsibility; and
- *Principle 9:* encourage the development and diffusion of environmentally friendly technologies.

#### Anti-Corruption

- *Principle 10:* Businesses should work against corruption in all its forms, including extortion and bribery.

## Appendix 2: Interview guide: Marketing of SRI at KBC and Dexia

*The interviews were carried out with the responsible of SRI marketing at KBC and Dexia. The purpose was to reveal information that could not be found through external information sources such as Annual reports and Internet. The interview guide is divided in sections: Introduction, SRI products, SRI marketing for retail clients, SRI marketing for banks' personnel and finally future challenges and goals the banks have regarding SRI.*

### Introduction and context

1. Name and the position of the person interviewee? How long experience in marketing SRI?
2. How long have you had SRI products in this bank? Why is SRI market interesting for you?
3. What are the main motivations in this bank to offer and develop SRI products?

*The first questions allow the interviewee to introduce himself and his responsibilities, so that we can be sure to interview the right person. As the banks have long experience in marketing SRI products, it is natural to start with questions about the history of SRI and motivations regarding SRI.*

### SRI products

*The questions regarding SRI product allowed confirming information on the websites and annual reports. Most of the information regarding SRI could be found through external information sources, that is why only some specific questions we asked regarding SRI products. The questions also varied between the two banks, as they offered different information regarding SRI products on their websites.*

4. How do you define SRI in this bank? What is the SRI philosophy? Which terms are used?

*This question is important, in order to compare definitions between the two banks, their external information (websites) and information given at the branches.*

5. What kind of SRI products do you offer to retail clients?

*We wanted to know all the different SRI products the banks offers (funds, savings accounts, insurance products etc.), even though the research concentrates mainly on investment products, because it could indirectly have impact on banks' SRI marketing strategies.*

6. What ESG selection criteria are used to select SRI products? What are the different categories of SRI?

*Both of the banks describe their SRI screening procedure carefully on their website, as they have published the European Transparency Code. Nevertheless, we wanted to know the main strategies (Best-in-Class, Thematic) banks use regarding the theatrical frame and which criteria is the most used/the most important etc. It was also important to know how the bank is defining their criteria and how the SRI categories differ from each other.*

7. Who sets the SRI criteria: internal or external entity?

*This question is important to understand the methodology that is used to define SRI. Is the screening done by an external organization or internally in the bank based on own criteria? Both banks have an external board, but we wanted to know exactly what is their role in deciding and reviewing of the screening procedure and how must control they have.*

8. Are any of your SRI products labeled? Which label?

*Is there an external quality certification of SRI products or their transparency? This question seeks to find out if there are any external labels such as Ethibel, and if not, why?*

9. How do SRI products differ from conventional investment products?

*This questions aims to summarize what is the main difference between SRI and non-SRI from the point of view of the banks, as SRI products are complex.*

### External promotion

*The questions regarding external marketing help us to understand how the banks are marketing SRI for retail clients and which methods and tactics are used regarding the ORSE best practices of marketing SRI.*

10. SRI message: What is your **baseline/slogan** for SRI? Who is your main **target**?

11. Is marketing of SRI increasing?

*The questions reveal, what is the main message the banks want to convey regarding SRI and to whom it is targeted to. We also want to know, if marketing of SRI is increasing in the two banks, as the retail market is claimed to have a lot of potential in the future.*

12. Which channels are used in marketing SRI?

*These questions are important. We can find information on SRI on bank's web site, but are there more proactive marketing methods such as letters, advertisements etc.?*

- 12.1. When did you last time have a SRI campaign on national level? What was it about?

- 12.2. What kind of information of SRI is sent to customers?

- Are you sending prospectus, commercial letter, brochures (big or small) or something else like books?
- How often?
- Which content?

- 12.3. What kind of **commercial material** is available on SRI? Where?

- Prospectus, commercial letter, online brochure?

- 12.4. How often do you organize **events/ seminars on SRI**?

- When was the last one?
- How many people were attending?

- 12.5. Have you organized any **PR campaigns** regarding SRI products? When was the last time?

13. How promotions of SRI products differ from promotion of conventional products? Why?

*What is the main motivation for the bank to sell SRI, the RAR (risk/revenue) or satisfy ethical investor's needs?*

14. (Which is your main web page for Belgian retail clients? ( there are many))

*We want to know, which is the main website marketing SRI to retail clients, as both banks have two sites: retail website which is mainly targeted for retail clients, but also Asset management website, which has a lot of information regarding SRI.*

### Internal promotion:

*The questions seek to find out, how the banks are making sure their personnel is marketing SRI products for clients, as the financial advisors are the main responsibilities of marketing SRI for retail clients. We also wanted to know which internal marketing methods and channels use benchmarked to the ORSE best practices of marketing SRI.*

15. How are sales personnel **trained** on marketing SRI products?
  - Who are the first group to receive formation?
  - Is it general training or special for SRI products? Is formation obligatory?
  - How often is training organized? When was the last time?
16. Are there **incentives**, like discounts on SRI products for the personnel? What kind of?
17. Who is responsible on supporting SRI marketing in the agencies? Are there **support teams** or SRI specialists that help distribution network personnel to sell SRI products?
18. Is there **material/ online information** available on ESG and SRI evaluation in order to **facilitate the sales process**?
19. Do you send **pedagogic material** on SRI to personnel?
20. Are personnel informed about **latest research on SRI**? How often?
21. Have you established **sales arguments** on SRI your personnel could use? Could I have a look?

### Conclusion

*These questions help to summarize the interview and talk about the current and future challenges and goals regarding SRI, in case the interviewees did not bring them up regarding the precious topics.*

22. What are the **future goals** regarding the marketing of SRI products? What is your **% target** of SRI of all the assets under management and & in value for the coming years?
23. What are the main challenges in marketing SRI?
24. Is SRI becoming a mainstream?

## Appendix 3: Interview with Dexia

*The interview was done with Pierre-Yves Boucau at Dexia, who is an affluent strategic marketing manager and responsible of clients investing 30 000 € or more. The Interview was carried out in Dexia headquarters in Brussels on the 8th April 2011 at 2pm.*

### Introduction

*Could you introduce yourself and tell about your position at Dexia?*

I am responsible of defining new investment products and, which are the best products to offer to clients of the entire product universe, including SRI and non-SRI. Dexia has both, strategic and commercial marketing departments. Commercial marketing department makes more operational marketing such as campaigns and offers. My task is more strategic, to ensure we have everything to serve our customers. Dexia asset management is responsible of all the funds, but does marketing only to institutional clients. Marketing to retail clients is done by us, Dexia bank. At Dexia, there is not one person or department responsible for SRI in the bank, but it is a shared responsibility between different departments. There is one team that develops financial products, other that is selling and distributing them. It is difficult to find one person that can answer all the questions of SRI marketing.

We have three levels of SRI. First level is the exclusion. Everybody is doing that so it is quite easy, we don't invest in weapons and some other bad sectors. It is very specific.

The second SRI we have is the best-in-class that is what we are mainly doing, in each sector we choose the best companies. It can be a bad sector. It can be tobacco for example, but we are selecting the best, so we are trying to pay attention to environment, corporate social responsibility etc. of these companies.

*So you are not excluding controversial sectors such as tobacco and animal testing etc.?*

No. We are investing in all the sectors.

The last one is positive screening. We are trying to do something more like Triodos, we are trying to investing in companies having a positive impact on social responsibility and environment, so it is more severe as criteria. Positive criteria can be based on either social criteria for example, company that is hiring handicap persons or thematic approach on environment, for example green energy and so on.

*Do you use always all the criteria or just some of them?*

We use always the exclusion criteria. Most of our funds are based in best in class and we have some based on positive criteria. With positive criteria we don't use best in class criteria as the entire sector is positive.

We are the leaders in best in class, but we are not making a lot of communication about that. The difficulty if SRI is that it is very negatively perceived by clients. We have made research on it and there is a link between SRI and our branding. If we speak about SRI investing to our clients, they directly think they will lose money and have lighter performance than other funds and it will cost money to clients to choose SRI.

*Is it true?*

It is not true. But when communicating about SRI, you cannot communicate that you are the best, first you have to communicate what is SRI and its performance. So we have to give a lot of information and time to our customers. It is not easy. We try to tell about possibilities in investing in SRI, but never make a push communication. Dexia has a long history in SRI because we strongly believe in that, because Dexia is more about public sector and we really want to invest in such a sustainable way. But we don't do branding about sustainability, because if we do so, our customers will not understand.

*Why is that?*

Because we noticed clients are really critical about sustainability. They don't believe Dexia can be sustainable. They will say it is only about corporate branding and they don't believe we really have a product with what we can do that. Because if we do that, they will go to our competitors KBC or BNP Paribas, because if we are only offering sustainable products they think their performance will be bad. So we want to do a lot of things for sustainability, but we are always very prudent.

*Do you mean that your SRI offer is more based on client demand?*

Yes. We always want to have an option of SRI. For all of our products, we try to have an equivalent of SRI. For insurance, we are following the rules of portfolio 21, which contains special SRI ethics. For funds, we always try to have the non-sustainable and sustainable option so customer can choose which one is the best. For funding products, we sometimes try to make local projects. In 2010 we launched local saving bonds, when customers had a possibility to invest in local projects such as swimming pool, hospital etc. in Belgium. So we give the client the option to choose the best option for him, where he is confident about the performance.

*Do you tell about SRI products proactively or you expect clients to ask for them?*

We have a list of structured questions we ask from client having more than 30 000 € account and we ask questions about his family, expectations, holiday plans, objectives and risk the client is willing to take. We don't make mass communication to all of our clients; we make it during personal meetings. We have some support material in branches, but it is not up to date. We still have a brochure of classical things but we have noticed that there is no need for material in the meetings, so we don't update it a lot.

*Why is SRI interesting for Dexia?*

Many of the Dexia's shareholders are public companies, the state or public sector and their shareholders have often vision of sustainable offerings. It is in our culture to have sustainable products included in our offer.

*Do you have any other SRI products in addition to funds?*

Yes. We have a lot of sustainable loans, eco-credits and now we are thinking about making a savings account that is sustainable. We are now making a study about it, because we really want to make SRI, but the product has to be critical. We cannot only market SRI savings account without any specific advantages. So we are studying the possible advantages and disadvantages and the launch would be in 2012-2014. That's all.

*Do you have an external control for your SRI screening?*

We used to work with Ethibel, but we stopped because we realized we could do the same thing ourselves in a cheaper way. Clients were not so attentive to Ethibel or any other label so it wasn't that important. That is why Dexia AM decided to make its own sustainability criteria. All the criterion is now controlled once a year. We had the external board since the beginning; screening was always done with some external support.

*Are they also deciding the criteria?*

They are defining the process and it is checked by the external board.

*So they are not deciding the criteria but more like monitoring it?*

Yes. And they can propose a change if they think the criteria is not sustainable. Now we are using a lot of criteria decided by BEAMA, because they are making really transparent rules for all asset managers.

*Do you have a label for your SRI products?*

We don't have a label for all our products, but we always try to communicate about sustainability. Sustainable is always mentioned in the name of the products, which is really easy. For insurance, we give this p21 label but it is so small it is not communicated much. And we have Dexia life value. These labels are defined by Dexia.

*And is such as Ethibel label interesting for you?*

Label is interesting if the communication of our sustainable products is not good, then it is good to have a label. For example biological sector, because there can be a lot of misuse of such a technology. But the biggest problem we have is the customer. Customer does not want SRI.

So we have two options as a bank: we do nothing, which is the easy way, or I take time and I insist my customers to take this SRI product telling it is better for you and for the society.

*And why doesn't it work if you have evidence that the yields are the same?*

It is all about perceptions. The problem is that they are not convinced in the beginning so I have to take the time to convince a person. But if there is a problem the customer will obviously not be happy and Dexia will be responsible. So why should Dexia take big responsibility and danger the relation we have with our customer only for selling more SRI? That is the problem we always have. We made lots of campaigns in the beginning of 2008 and since the crises we stopped everything because we try to keep our customers and not to sell something else. So we are very cautious on what customer wants and what is best for him, it is not a good solution to push one product.

But the main problem is that there should be someone promoting SRI generally in Belgium, having nothing to do with banks.

*So you are saying that clients think, in case their funds fail, they fail because they are SRI?*

Yes. And they would blame the personal advisor or Dexia for advising SRI.

*Do you personally think the yield is the same for SRI and non-SRI?*

Yes, for long term periods. But there can be a lot of difference in one year. In one year there can be a 5-6 % change, but indeed in ten years the differences are small. But, in case of a loss, it can be a lot of money.

We use Best-in-class criteria the most, because it is really difficult to find companies that fulfill all the sustainable criteria.

*Do you think SRI could become a mainstream in some point?*

Only if there is a lot of communication from banks or other institutions, but it is more about convincing the customer. 95% of the customers will never use SRI as a selection criterion for investment.

*Do you have research results about it?*

I have but not about this %. We have a lot of qualitative research about it: what customers are taking into account when making investment decisions and sustainability never came up as a criteria. Actually it begins from 35 years and the main investors are 50-90 years old, so it will take a lot of time before it will be a major trend.

## **Marketing of SRI to retail clients**

*Do you have a slogan or a baseline for SRI products?*

Yes: if you invest in SRI, you win two times: you will win for your portfolio because you have a good performance and you will win for the society. In other words, you choose the best one and at the same time you try to invest for a better world.

*And do you communicate that?*

It is a very critical slogan, because the clients want evidence such as figures. Why is only Dexia saying that? If it true why not all the banks do that?

*They don't?*

No. Dexia has more than 50 % market share in value in SRI. But it depends how you calculate it. Because there are lots of positive screening products such as green energy, which is considered as a sustainable investment, but the person investing in green energy is not often motivated by SRI but because of big performance. There were a lot of investment opportunities in those environmental funds in 2009-2010, but the main reason was performance and not at all sustainability. Those products use SRI as a second or third argument.

*Do you have a target audience for SRI?*

We target the persons who are interested in SRI, so we give the responsibility of the target to our account managers.

*So the decisions are made at the branches?*

Yes.

*Is marketing of SRI increasing?*

For the moment SRI marketing is stable but I think we are going to invest more in the future. Now that the financial crises is over we really want to invest more in SRI, but not with the investment products, we decided to start more with loans. There are a lot of incentives from the government, so we get better loans to invest in such as eco loans and solar panels and there are a lot of possibilities to do so. So we decided to make a lot of communication about that because those products are clear for clients and society, they are really easy to sell, so we decided to focus on those products. So now we are convinced SRI is actually not good because it is only about investing, so we really want to have products for everyone: savings accounts that able us to communicate about sustainability, but we don't have that the only problem is that there exists one and it is made by Fortis, le compte Sical, but they are planning to remove it so we have lot of discussions with Netwerk Vlaanderen to do the same thing, but we need to have some business cases. So if we communicate a lot, we have to make it a long term product and that is what we are studying today.

*So external help is important?*

It is always easier. Take the example of cars in Belgium: we know that they have a big impact on environment, but change happened only after the government decided to put more taxes on polluting cars. It is really difficult for one person, or for Dexia, to change all the people.

*When was your last national campaign on SRI?*

We didn't do anything the last three years. But Dexia AM makes a lot of SRI communication, which is accessible through our internet site. And what it comes to our internet site we checked that everything was up to date and correct.

*Do you send any SRI information to retail clients?*

No. We really don't.

*Research results on SRI?*

No. We don't have a customer that invests 100 % of his money on SRI. So we are more communicating about performance, what is good or bad, evolution and comments of changes but we don't make specific communication about SRI. So actually our SRI marketing is really reactive.

*So you give SRI clients the same general information you give to non-SRI investors?*

We have a lot of internal communication to use during the meeting, but nothing to give to clients. So we have more information about the sales process and customer information.

*But there is information available to clients on your website?*

Yes.

*Do you publish news about SRI there?*

It is more important to give information to advisors as most of the clients don't understand what investing is about. So the classic investment process goes like this: client has 5000-10000 € to invest and he goes to his branch, to his advisor and asks the advisor what he should invest in. So we can lead him to our website or give a brochure, but the main criterion is to give good information to our sales force. This is why we make sure that everything is up to date to our sales force to make sure that if the customer has the profile to invest in SRI, he already has the information he needs to communicate to customer. So there is a lot of material what is sustainable on the internet site, customer can always subscribe to the sustainable brochure of Dexia asset management.

*Do you organize events or seminars on SRI?*

No.

*Do you make PR campaigns or send press releases on SRI?*

No.

*How is promotion of SRI different from non-SRI products?*

It is really difficult to communicate about SRI. Normally when you make a campaign you have to communicate about something that is really easy. And SRI is not easy at all. First of all, SRI can be about lots of things, it can be about the CSR of Dexia, like we decide to print less paper or have long term commitment with our employees. This is SRI. But how can you communicate about all these things? You decide to communicate about energy related products, or environment. It is all about the same concept, but it is quite different. It is very difficult to make communication about SRI, because it is something good but not concrete. It is difficult to communicate the impact on clients if they invest in SRI (to persuade them). We made a campaign in 2008 and we asked a communication agency to make a proposal. And they came up with a flash and a bird nest inside, and that was about SRI, sustainable investment. So that was quite complex, but the idea was that if you invest in SRI the environment will grow and clients will not receive any fine, but profit because they invest in SRI. That was the best proposal for one month campaign, it is difficult to communicate something that is easy for client to understand and convey the critical message. So that was the problem. Communication about conventional products is really easy, for example 5 % yield, that is something that people understand and we cannot do that with SRI.

### **Internal marketing of SRI**

*Do you have training for the personnel about SRI?*

No, not specific. We talk about SRI always when we give basic information of our products but we don't organize specific training on SRI.

*SRI training is not obligatory?*

Yes because it is integrated in training we give to all of our sales managers. So we don't tell them to sell more sustainable products, but they have to know all the products we have, meaning insurance, funds, obligations and in all the products you need to know the difference in asset allocation, if it is SRI or non-SRI.

*Do you have incentives for the personnel?*

No.

*Do you have support teams or specialist in SRI sales persons could contact if needed?*

No.

*But that would be good to have that. If I really wanted to sell more SRI I would do that.*

We want, but without investing s much into it. Dexia has lots of problems for the moment. Our main concern now is to give a good product to customer and not to sell sustainability. If a customer does not really require SRI, we don't want to push SRI. So our strategy today is really to be reactive. And other priorities we have, we want to be proactive, because Dexia has to survive from the crises.

*SRI is not related to the crises survival?*

No. Well, it depends, because for best in class you can still invest in financial sector, and for instance for Triodos bank a few months ago Dexia was still in its SRI universe, but not anymore because of Dexia Israel. We sell it, so if will be ok, but what we do is the best we can do. It is not that because a company is in the best in class universe it has a proof for the rest.

*Could you tell me more about the support material online for the personnel?*

On the site of Dexia asset management, they have special access to intranet with all the information about the funds. All our distributors have special access to more information on the AM website.

*Do you have sales arguments on SRI?*

Yes. We have lots of sales arguments why SRI has the same performance, what is best in class, a good explanation about the difference.

*Do you have other communication channels than intranet?*

Yes, but it is more used when something changes, for example new products of the monthly offer etc.

*But regarding SRI, intranet is the only support tool you have?*

Yes.

## **Future goals and challenges**

*Do you have specific future goals in SRI?*

We don't have a specific goal on SRI, but we really want to invest more on SRI. We are now focusing more on energy loans and there we have a lot of objectives. It depends how persuasive it is, we can do something really easy, for example a product to invest in local savings accounts: we give part of the investment to local association here in Brussels or in Louvain- la-Neuve and you have a choice to invest in something you know and you have confidence in. This is one of the examples we could do because it is really easy. It is a savings account, it is easy to have and at the same time you can say you help someone else and do something local.

*You have more than 20 % of all assets under management invested in SRI?*

This is more about Dexia AM, for Dexia I don't know.

*So you work quite separately from them?*

No, but Dexia AM has to kind of customers, retail and institutional, and they combine the markets in Belgium, Luxembourg and in France. Majority of the assets of Dexia AM are from institutional investors.

*To conclude, what are the main challenges in the future to sell SRI?*

We have two options: either we need to communicate a lot because the business cases will always be negative in the long term, because we won't win anything more if we are investing in sustainable on non-sustainable products; the profitability of Dexia is precisely the same. We don't have any financial help to do additional SRI marketing ( so we actually lose money when marketing SRI). It is only about feeling better we have SRI. So we need a lot of time, conviction, and now that we have financial problems it is really difficult to invest in SRI marketing. So in the end, either Dexia communicates or we have an incentive from an external party. For example government wants to stimulate SRI and decides to give some tax exemptions for that. Some associations such as Netwerk Vlaanderen are communicating to our customers to promote these selection criteria. Today we work with this association but, they want us to pay a lot of money for social investment, with the same financial advantage for the customer and we cannot afford that.

So ok, bank is rich, but it doesn't mean you have to give more if you are rich.

## Appendix 4: Interview with KBC

*The Interview was done with Geert Heuninck, the Head of SRI department at KBC Asset Management on the 6<sup>th</sup> April 2011 at 2 pm. The interview lasted one hour and it was carried out in KBC headquarters in Havelaan 6, Brussels. The questions are based on the interview guide, but the order varies depending on which topics the interviewee highlighted.*

### **SRI products at KBC:**

*Why SRI market interesting for KBC?*

We started with SRI products for institutional clients in 1992. We started SRI products because of two reasons: we detected interest from some clients in that field, also we wanted to do an experiment of integrating extra financial information in investment business, which was new, but also we wanted to highlight the importance KBC group already put on sustainability, towards environmental attitude. These facts together made us to decide to launch the first Eco fund. We kept on improving our methodology and the product offer we have on sustainable investing funds.

*Have you made some changes in your methodology since 1992?*

We made changes in 2006 and 2009. We started the methodology of best-in-class funds in 2002, when we defined what sustainable methodology is and how to transfer that in sustainable investments. In 2009 we noticed that the methodology we used was obsolete. We had to take into consideration the financial crises, but also the world has changed what it comes to sustainability. The points of views were not the same we had in 2002, so actually we decided to re-invent our methodology from scratch and start with a completely new set of values and principles in 2009.

*What is the definition of SRI at KBC?*

We want to invest in solutions in order to create a sustainable world. We don't see SRI as an instrument to obtain this, but as a level of continuation towards sustainable development. We want to offer our clients investment strategies, which use SRI visions and CSR values and we only want to invest in companies which are in line with these values and principles. By offering that kind of products, we are sure that we only invest in companies that are in line, and the same time we hope, it is a HOPE, that we don't affect the performance in a negative way.

*In your opinion, could SRI become a mainstream or is this definition something specific for only SRI products?*

We have created a distinction of the mainstream funds and the SRI funds. That is for sure. But with our SRI funds we are inspiring our mainstream funds as well. For example, all KBC funds exclude companies that are involved in landmines, cluster bombs etc. because those activities are so controversial we don't want to invest in those companies at all. Also, one of the instruments we use to stimulate SCR is engagement. We want to stimulate corporate social responsibility and we do that by screening and evaluating companies, but also by voting and engaging with companies. And in voting and engaging process we use all our assets under management, not only SRI. So we do engage in companies, we do write letters and participate in annual meetings, shareholder meetings, and using 90 % of the portfolios managed and not only the SRI shares we have.

*Could you tell me more about different SRI strategies at KBC?*

We have two different strategies: ECO funds and best in class funds. Best-in-class we select the best in CSR and eco funds we are targeting a specific ecological challenge and we have a capitalistic view on how to solve a problem by creating economical activities in a certain problem or challenge for instance. For example in climate change we want to improve energy efficiency by investing in companies who are offering solutions in green lighting and energy efficiency.

We name a fund SRI if all the equity in it is screened according to this methodology. We are offering these products to clients who are telling that CSR is important for them but also traditional clients can have access to these funds.

*What is the role of the external committee?*

The external board decides the methodology, the definitions, the criteria, how to screen the companies, the threshold of 40 % in the best in class selection, exclusion criteria, but also they decide of the composition of the universe. Each year we have a meeting in September on the ins and outs of the investment universe. We do a recalculation of the results once a year, we select the 40 % companies of each sector and companies that are excluded and then we make a comparison of the new universe compared to the old universe and discuss about the new entrances. The excluded companies are no longer discussed.

*Are you considering any labels such as Ethibel?*

Ethibel is a competitor of us. Ethibel is a brand of SRI, as we are a brand of other liabilities. So Ethibel, or Vigeo, or sustainable asset management, they have got their own methodology, their own set of criteria, and they decide their own values and principals and the companies who are in line with their values and principles. We do the same at KBC, we offer our investment products according to our methodology to our clients.

*In your opinion, what is the main difference between SRI and non-SRI?*

The fact that we use negative and positive criteria, that we exclude those companies that are involved in controversial activities or issues like oppressive regimes, for instance Libya. We use positive criteria in companies who are distinguishing themselves from their competitors in environmental management and social policy. In the content, the difference is quite huge. In the actual composition of the portfolio, the fund managers have to invest their funds in the universe we decide, but the exact composition of the fund is determined completely by the fund manager. We have no impact on how the fund is composed. The fund manager will automatically opt for the benchmark positions. The fund manager is using the same investment strategy to compose the fund than other funds, if he wants to over-rate certain industry group he will do it for same funds, but SRI funds in this sector are limited to certain companies. And he will opt for the benchmark positions, the high liquidity which he can easily buy and sell.

### **Marketing of SRI to retail clients:**

*What is the baseline of SRI products at KBC?*

Hmm, actually it is... (sends the assistant to search for a brochure). We have an old folder; we have to make a new one! The values are risk and return, transparency and our methodology...independency.

*Who are SRI products targeted to?*

We aim actually for all types of investors, institutional and retail; we see a lot more interest from institutional investors: universities, public authorities, hospitals, also religious congregations.

*And what about retail clients?*

For retail clients we have a huge set of products with capital protection, (the assistant brings the brochure) so here are our values which need to stand the public debate and it is important that the principals and values we are defending are accepted by the clients. We hardly had any negative actions on the methodology and criteria we use.

*Is marketing of SRI products increasing towards retail clients?*

No. We are now concentrating more on high net worth individuals, institutional clients and actually the high level clients.

*Why?*

In this moment, I have heard that there is no real demand for SRI from retail clients. Actually there never is a demand for investments from retail clients, we are not asked, we are the ones who go to clients and make a proposal. Clients are not walking in the streets and thinking that I have to go to my bank and do some investments. So the market is driven by the offer, not by the demand. For the institutional clients the demand is more concrete and also more demanding for more SRI criteria. Normally the bank contacts its clients and proposes to have a conversation on

investments and different investment goals for example for children etc. That is the reality, we target clients and discuss with them about their financial needs and plans and we propose portfolio in addition to saving accounts.

*So in this case, would you recommend SRI as an investment option?*

In this case not. It is not a standard proposal we make to clients.

*Do you send any SRI information to retail clients?*

The website and five times a year we publish an investment monitor. It is an electronic newsletter, which is sent to everybody who is on the mailing list.

*Who are on the mailing list?*

Current SRI Investors and potential SRI investors who can subscribe it on the website for free. Clients have to subscribe themselves in order to receive the monitor.

*Is there any other SRI material available?*

We have got a sustainable passport for each SRI fund on our website. Only on our website, accessible through KBC fund finder, not printed. There you can find also the prospectus, annual report of each fund etc. There is also the documentation of the Eurosif transparency guidelines. In addition we got the fund fact sheets, the key information, the prospectus, the leaflets one page summary of the funds.

*What about events and seminars?*

We have normally some events or information sessions to clients. We are organizing one in June 20<sup>TH</sup>.

*How many people are normally attending?*

It depends how the network, the branches are pushing clients to come to that event. In 2009 we had 16 events, with 200 clients on average, last year we had only our online event. If we do it only on our own on SRI we attract 100-150 clients. The invites are distributed only by the branches.

*If I would like to obtain an invitation, how could I?*

Send an email to me or go to a local branch.

We also had an SRI chat in the De Tijd, the dominant financial newspaper in Belgium, chat of the SRI team and the professors of the environmental issues. Some clients and prospects could chat with us.

(always looking for the English version of the sustainability passport on his PC)

*Have you had PR Campaigns on SRI?*

We are not good in marketing and PR. The main marketing we do is internally to our relationship managers. We have to convince and inform them about the value of SRI, But at the focus is not really on retail but on institutional investors.

*Why?*

Because today we don't offer any capital protected SRI funds. The main offers we do to retail clients are products with capital protection. We are managing quite a lot of structured SRI products with capital protection. And due to several reasons in this moment we don't offer capital protected SRI funds. The market conditions are not good for structured funds, we need low volatility and high liquidity and we don't find them that easily at this moment. The commercial conditions are not really in favor for capital protection. And there is a tendency to decrease the products for retail clients. We don't want to launch that many products as in the past, we launched 10-20 funds each month, not it is only 2-4.

*How promotion of SRI products to retail clients differs from promotion to non-SRI products?*

We never had very aggressive campaigns on investments. From time to time we do an advertisement in the newspaper but you hardly find pubs in bus stations or airports or television. There is no dedicated publicity on investment products as we want to get rid of that product approach. Instead, we want to manage portfolios.

*Did you have any public campaign on SRI or CSR?*

No. In a relationship with a client you have to know the needs and the values of our clients, and construct the portfolio. We need to get rid of buying and selling the product of the market as it is counterproductive. We see clients demand and how we are managing that regarding their risk profile and investment horizon which is different for everyone.

*So, the offer depends on client's demand and it is determined in the face-to-face conversation at the branches?*

Yes. The portfolio management becomes very important: what are the client needs and how can we meet the client needs and risk appetite and his financial strengths.

### **Internal promotion of SRI:**

*Do you organize training for your personnel on SRI?*

For the new relationship managers there is a SRI training, which is this presentation that we provide to new colleagues and relationship managers that are new in the office, or those who want to get refreshment on their knowledge. You can always subscribe for a teaching session "open learning" platform and few times a year we give them a training session from six to nine.

*Is it obligatory?*

No it is voluntary.

*How often it is organized?*

Twice a year approximately.

*Do you have SRI incentives for your personnel?*

No, just because we want to get rid of that push strategy of products. It is completely wrong attitude to sell products that clients are not interested in or which do not fit in the client's profile.

*Do you have support teams or specialist for the branches sales forces?*

They can find information on the intranet. We have system of relationship managers and they are supported by advisors to relationship managers. These advisors are better informed than the local relationship managers and if there are any concerns then they come to us. Relationship managers are working at the branches.

*Do non-SRI analysts work together with SRI analysts?*

The first step is to determine the investment universe, what are the acceptable bonds, and then we distribute the universe to financial analysts and portfolio managers. Product managers manage their funds completely independently from SRI department. So we do the first screening and select the acceptable SRI stocks and they do their financial analysis and fund composition in that universe completely independent from us.

We do work together what it comes to voting and engagement, for example in an annual meeting there are some points we want to stimulate and together we make an analysis and discussing with the proxy voting and engagement committee in which both SRI and non SRI fund managers are represented. And together we decide how we should vote against remuneration or methodology which we don't like.

*Do you have support material at the branch to sell SRI products?*

When there is a new product launch we have an information brochure of the characteristics and specifics of each fund. We have a new SRI fund commercialized in CBC area in the French speaking part of Belgium. It is not available online; it is only a leaflet for the branches.

*Do you send SRI research results internally to personnel?*

No. We send new decision taken to people who are really involved but there is no internal forum or news on sustainability. Bimonthly newsletter is available to everyone, but not sent to personnel.

*Do you have sales arguments for SRI?*

(Silence)...the fact that it is SRI, the quality of the screening, transparency, risk/return, independency, the performance is good and actually the values that are in the SRI screening. The main information we give is this set of values of the screening model and by evaluating companies on this model, by giving them a score and selecting them and they will not have a negative effect on performance.

### **Future goals and challenges**

*What are your future goals regarding SRI?*

We want to stay the number one on the Belgian market and attract institutional clients. For inst we want to create a complete offer of SRI products. Assets under management should go up for 10 % and launch of some new investment strategies, in volume and also in number of new funds.

*What are the main challenges of marketing SRI?*

Convincing people of the benefits of having their portfolio managed in SRI. Institutional investors are more convinced of the added value of the SRI, in retail clients the difficulty is how to convince the people, how to inform people with objective information. We are a bank, and banks are not the most... people don't like banks. There is a certain image of banks and the communication we give is influenced by it.

*Would you yourself invest in SRI?*

Yes!

*So what is the main doubt the clients have, the banks or the funds?*

Performance, trustworthy, is it only a commercial technique.

*What could you do about it?*

Transparency. And give reliable information. But it is a problem for the moment we label it as KBC or whatever financial brand, I can imagine that people have some doubts about the information given. Corporate communication lacks credibility. It is difficult to increase SRI because we have to convince people and our clients, also our distributors and sales persons to take the challenge of offering such products. Because, if I sell to you a mainstream product and it does not go well, ok bad luck; if I offer you an SRI product and it goes wrong it can go wrong because of the SRI element. It is an extra question mark and I do feel that our sales persons and distributors are more or less reluctant to sell SRI.

*Why?*

They don't know it so well, although we are now almost 20 years active in SRI, it is a long time process to keep informing and convincing people.

*Do you think KBC is doing enough in terms of informing about SRI?*

Of course I have to say no. We can do it better.

## Appendix 5: KBC SRI funds

Alternative Energy			
	Open		
		Equity	
			INTERNATIONAL MANDATES
			Calvert Alternative Energy
			Samsung Alternative Energy
			Park Foundation Inc
			KBC AM International Alternative Energy (all others)
			KBC Eco Fund - Alternative Energy
		Structured	
Best-in-class			
	Open		
		Money Markets	
			KBC Institutional Cash Year-End
		Balanced	
			KBC If - Global Ethical Defensive 1
		Equity	
			KBC IF - SRI WORLD EQUITY KAP
			KBC Eco Fund - Sustainable Euroland
			KBC Eco Fund World
			KBC If - Ethical Euro Equities
			In.Flanders Index Fund
		Fixed Income	
			KBC If - Ethical Euro Bonds
			KBC Obli - Euro
			KBC Renta Aud Renta
			KBC Renta Canarenta
			KBC Renta Decarenta
			KBC Renta Nokrenta
			KBC Renta Nzd Renta
			KBC Renta Sekarenta
			KBC Renta Sterlingrenta
	Structured		
		Equity	
			KBC PARTICIPATION SHORT HORIZON 03 KAP
			KBC EQS WORLD USD 03 KAP
			CENTEA FD JUMPSTART 01 KAP
			CENTEA FD JUMPSTART 02 KAP
			CENTEA FD JUMPSTART 03 KAP
			Centea Fd Sustainable Short Term 01
			Centea Fd Sustainable Short Term 02
			Fund Partners CSOB Sustainable 1
			Fund Partners KB Sustainable 1
			Horizon CSOB Sustainable Skk 1

		KBC Click CSOB Sustainables 02
		KBC Click Ethiclick 1
		KBC Click Short Term Sustainable 01
		KBC Click Solidarity 1 - Kom Op Tegen Kanker
		KBC Click Solidarity 2 - Levenslijn Kinderf
		KBC Click Solidarity 3 - K.O.T.K.
		KBC Eqp Head Start Sustainables 01
		KBC Eqp Head Start Sustainables 02
		KBC Eqp Head Start Sustainables 03
		KBC Eqp Head Start Sustainables 04
		KBC Eqp Head Start Sustainables 05
		KBC Eqp Head Start Sustainables 06
		KBC Eqp Head Start Sustainables 07
		KBC Eqp Head Start Sustainables 08
		KBC Eqp Head Start Sustainables 09
		KBC Eqp Head Start Sustainables 10
		KBC Eqp Head Start Sustainables 11
		KBC Eqp Head Start Sustainables 12
		KBC Eqp Head Start Sustainables 13
		KBC EQP HEAD START SUSTAINABLES 14 KAP
		KBC EQP HEAD START SUSTAINABLES 15 KAP
		KBC EQP JUMP SUSTAINABLES 01 KAP
		KBC Eqp Jump Sustainables 02
		KBC EQP QUALITY STOCKS LOOKBACK 01 KAP
		KBC EQP QUALITY STOCKS LOOKBACK 02 KAP
		KBC EQP QUALITY STOCKS LOOKBACK 03 KAP
		KBC EQP QUALITY STOCKS LOOKBACK 04 KAP
		KBC Eqp Sustainable Jumpstart 1
		KBC Eqp Sustainable Jumpstart 2
		KBC EQS QUALITY STOCKS USD 01 KAP
		KBC EQS QUALITY STOCKS USD 02 KAP
		KBC EQS QUALITY STOCKS USD 03 KAP
		KBC EQS QUALITY STOCKS USD 04 KAP
		KBC EQS QUALITY STOCKS USD 05 KAP
		KBC EQS QUALITY STOCKS USD 06 KAP
		KBC EQS QUALITY STOCKS USD 07 KAP
		KBC EQS QUALITY STOCKS USD 08 KAP
		KBC Eqs Safety Booster Sustainables Aud 02
		KBC Eqs Saftey Booster Sustainables Aud 01
		KBC Eqs Special Sustainables 1
		KBC Eqs Sustainables 1
		KBC Eqs Sustainables Short Term Usd 03
		KBC Eqs Sustainables Short Term Usd 04
		KBC Eqs Sustainables Short Term Usd 05
		KBC EQS SUSTAINABLES SHORT TERM USD 06 KAP
		KBC EQS SUSTAINABLES SHORT TERM USD 07 KAP
		KBC Eqs Sustainables Short Term Usd 08
		KBC EQS SUSTAINABLES SHORT TERM USD 09 KAP
		KBC Eqs Sustainables Short Term Usd 10

		KBC Eqs World Sustainables 01
		KBC Eqs World Sustainables 02
		KBC Eqs World Sustainables 03
		KBC Eqs World Sustainables 04
		KBC Eqs World Sustainables 05
		KBC Eqs World Sustainables 16
		KBC Eqs World Sustainables Usd 01
		KBC EQS WORLD USD 01 KAP
		KBC Eqs World Sustainables Short Term Usd 01
		KBC Eqs World Sustainables Short Term Usd 02
		KBC Eqs World Sustainables 13
		KBC Eqs World Sustainables 14
		KBC Eqs World Sustainables 15
		KBC EQUIMAX 2009 INVEST 01 KAP
		KBC EQUIMAX 2009 INVEST 02 KAP
		KBC EQUIMAX 2009 INVEST 03 KAP
		KBC EQUIMAX 2009 INVEST 04 KAP
		KBC EQUIMAX 2009 INVEST 05 KAP
		KBC EQUIMAX 2009 INVEST 06 KAP
		KBC EQUIMAX 2009 INVEST 07 KAP
		KBC EQUIMAX 2009 INVEST 08 KAP
		KBC EQUIMAX 2009 INVEST 09 KAP
		KBC EQUIMAX JUMPSTART 01 KAP
		KBC EQUIMAX JUMPSTART 02 KAP
		KBC EQUIMAX JUMPSTART 03 KAP
		KBC EQUIMAX JUMPSTART 900 B KAP
		KBC EQUIMAX JUMPSTART 900 C KAP
		KBC EQUIMAX JUMPSTART 900 D KAP
		KBC EQUIMAX JUMPSTART 900 E KAP
		KBC EQUIMAX JUMPSTART 900 F KAP
		KBC EQUIMAX JUMPSTART 900 G KAP
		KBC EQUIMAX JUMPSTART 900 H KAP
		KBC EQUIMAX JUMPSTART 900 I KAP
		KBC EQUIMAX JUMPSTART 900 J KAP
		KBC EQUIMAX JUMPSTART 900 KAP
		KBC Equimax World Sustainables 06
		KBC Equimax World Sustainables 07
		KBC EQUISELECT CRC PROTECTED FUND 2 KAP
		KBC Equiselect World Sustainables 08
		KBC Equiselect World Sustainables 09
		KBC Equiselect World Sustainables 10
		KBC Equiselect World Sustainables 11
		KBC Equiselect World Sustainables 12
		KBC Institutional Investors Sustainables Best Of 1
		KBC L INV FD MI SEC JUMPSTART 900 B KAP
		KBC L INV FD MI SEC JUMPSTART 900 KAP
		KBC L Inv Fd Mi Sec World Sustainables 1
		KBC L Inv Fd Mi Sec World Sustainables 2
		KBC L Inv Fd Mi Sec World Sustainables 3

		KBC L Inv Fd Mi Sec World Sustainable 4
		KBC L Inv Fd Mi Sec World Sustainable 5
		KBC L Inv Fd Mi Sec World Sustainable 6
		KBC L Inv Fd Mi Sec World Sustainable 7
		KBC L Inv Fd Mi Sec World Sustainable 8
		KBC L Inv Fd Nlb Vita Sustainable 1
		KBC L INV FD SEC QU ST 10 KAP
		KBC L INV FD SEC QU ST 11 KAP
		KBC L INV FD SEC QU ST 12 KAP
		KBC L INV FD SEC QU ST 13 KAP
		KBC LIFE INVEST FUND - SECURITY QUALITY STOCKS - 14
		KBC LIFE INVEST FUND - SECURITY QUALITY STOCKS - 15
		KBC LIFE INVEST FUND - SECURITY QUALITY STOCKS - 16
		KBC Life Mi Head Start Sustainable 01
		KBC Life Mi Sec Head Start Sustainable 02
		KBC Life Mi Sec Head Start Sustainable 03
		KBC Life Mi Sec Head Start Sustainable 04
		KBC Life Mi Sec Head Start Sustainable 05
		KBC Life Mi Sec Head Start Sustainable 06
		KBC EQS WORLD USD 02 KAP
		KBC PARTICIPATION SHORT HORIZON 02 KAP
		KBC PARTICIPATION QUALITY STOCKS EUR 01 KAP
		KBC PARTICIPATION QUALITY STOCKS EUR 02 KAP
		KBC PARTICIPATION QUALITY STOCKS EUR 03 KAP
		KBC PARTICIPATION QUALITY STOCKS EUR 04 KAP
		KBC PARTICIPATION QUALITY STOCKS EUR 05 KAP
		KBC PARTICIPATION QUALITY STOCKS EUR 06 KAP
		KBC PARTICIPATION QUALITY STOCKS EUR 07 KAP
		KBC PARTICIPATION QUALITY STOCKS EUR 08 KAP
		KBC PARTICIPATION QUALITY STOCKS EUR 09 KAP
		KBC PARTICIPATION QUALITY STOCKS EUR 10 KAP
		KBC PARTICIPATION QUALITY STOCKS EUR 11 KAP
		KBC PARTICIPATION QUALITY STOCKS EUR 12 KAP
		KBC PARTICIPATION QUALITY STOCKS EUR 13 KAP
		KBC PARTICIPATION QUALITY STOCKS EUR 14 KAP
		KBC PARTICIPATION SHORT HORIZON 01 KAP
		KBC PARTICIPATION SHORT HORIZON 4 CSN.
		KBC PARTICIPATION SHORT HORIZON 5 CSN.
		CENTEA FUND QUALITY STOCKS 1 CAP.
		CENTEA FUND QUALITY STOCKS 3 CSN.
		CENTEA FD QUALITY STOCKS 04 KAP
		CENTEA FD QUALITY STOCKS 05 KAP
		CENTEA FD QUALITY STOCKS 06 KAP
		CENTEA FD QUALITY STOCKS 07 KAP
		KBC PARTICIPATION SHORT HORIZON 06 KAP
		KBC PARTICIPATION SHORT HORIZON 07 KAP

			KBC PARTICIPATION SHORT HORIZON 08 KAP
			KBC PARTICIPATION SHORT HORIZON 09 KAP
<b>Climate Change</b>			
	<b>Open</b>		
		<b>Equity</b>	
			INTERNATIONAL MANDATES
			MUFJ
			EDUCATION FOUNDATION OF AMERICA
			KBC Eco Fund - Climate Change
	<b>Structured</b>		
		<b>Equity</b>	
			KBC Click CSOB Climate Change 02
			KBC Click CSOB Climate Change 1
			KBC Equisselect Climate Change 1
			KBC Equisselect Climate Change 2
<b>Water</b>			
	<b>Open</b>		
		<b>Equity</b>	
			INTERNATIONAL MANDATES
			SAMSUNG
			MUFJ
			CALVERT Water
			PAINTERS
			FIRE FIGHTERS' RETIREMENT SYSTEM OF LOUISIANA
			MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM OF LOUISIANA
			BNY Custodial Nominees (Ireland) Dublin Water Fund
			CITY OF AUSTIN POLICE RETIREMENT SYSTEM
			KBC AM International Water (all others)
			KBC Eco Fund - Water
			KBC Eco Fund CSOB Water
	<b>Structured</b>		
		<b>Equity</b>	
			KBC Click CSOB Water 03
			KBC Click CSOB Water 1
			KBC Click CSOB Water 2
			KBC Equimax Eco Water 1
			KBC Equimax Eco Water 2
			KBC Equimax Eco Water 3
			KBC Equimax Eco Water 4
			KBC Equimax Eco Water 5
<b>Agri</b>			KBC AM INST FD KBC ECO AGRI FUND
			KBC AM INST FD KBC ECO AGRI FUND - EURO CLASS (A KAP + B DIV)

## **Appendix 6: Dexia SRI funds**

### **Equity funds**

- Dexia Sustainable North America
- Dexia Sustainable Pacific
- Dexia Sustainable Europe
- Dexia Equities L Sustainable Green Planet (thematic)
- Dexia Equities L Sustainable World
- Dexia Sustainable World

### **Fixed income**

- Dexia Sustainable Euro Bonds
- Dexia Sustainable Euro Corporate Bonds
- Dexia Bonds Sustainable Euro Government
- Dexia Sustainable World Bonds
- Dexia Sustainable Euro Short Term Bonds

### **Balanced**

- Dexia Sustainable European Balanced High
- Dexia Sustainable European Balanced Low
- Dexia Sustainable European Balanced Medium

### **Structured products**

- Dexia Clickinvest B Climate Change (thematic)
- Dexia Clickinvest B Minimax 4 Green Planet (thematic)
- Dexia Clickinvest B Sustainable

## Appendix 7: Website analysis

*The questions see to find out, how easy it is to find information on SRI, and how much information is given on the retail websites on the two banks.*

### 1. Facility to find information on SRI

#### 1.1. Retail clients web site

1.1.1. Is SRI mentioned on the investment & savings section? Is there a direct link on SRI page *Or* is there a SRI option in the investment drop down menu?

1.1.2. Is there a dedicated page for SRI on bank's retail website? If not, is there a link to the dedicated SRI page?

1.1.3. If SRI is not mentioned among investment products, then where?

#### 1.2. Asset management web site

1.2.1. Home page: SRI mentioned?

1.2.2. How is SRI positioned regarding other Investment products?

### 2. Search function on the website

2.1. When searching "socially responsible investment" or "sustainable investment" "What comes out? Is the site properly linked regarding SRI?

### 3. Is there any news on SRI on the website?

3.1. When was the last time?

3.2. How often?

3.3. When was the site updated?

### 4. Contact information

4.1. Is there contact information of an SRI specialist?

4.2. Is contact information clearly indicated?

### 5. Online brochure

5.1. Are clients able to download online brochure on the website?

### 6. News subscription

6.1. Is it possible to subscribe news on SRI?

## Appendix 8: Interview guide Mystery shopping

*The questions are based on the method used by Test Aankoop in 2007. The semi-structured interview guide was not used in the mystery shopping situation, but helped to memorize the most important questions during the mystery visits as well as to note down all the important information right after the visits.*

### SRI basic communication:

- Do you offer SRI products? Could you tell me more about them?
- Is the product offered really sustainable?
- Why do you call this product sustainable/ ethic/ responsible etc.?

*How is the financial advisor describing SRI when asked spontaneously? Is he able to describe why SRI is called SRI without difficulties? What information is given?*

- What is the difference between different categories of SRI?

*In case the advisor introduces different SRI categories, how do they differ from each other?*

### SRI performance

- What is the difference of yields between SRI and conventional funds?

*Does the advisor think SRI is as profitable as non-SRI funds? If not, why not?*

### Knowledge and interest on SRI

*Was the advisor able to explain without difficulties about SRI? Is he talking about it with interest? Does he seem to know the subject well?*

### SRI screening

- Is there a permanent screening and monitoring process of SRI funds?
- Who is responsible of the screening: do you have an external control of you SRI content? By whom? From where I could find more information about it?

*Was the advisor aware of the external control of SRI funds? Does he know who is the responsible of screening and controlling SRI? What information was given? Is it correct?*

### Additional information

- Could I have some information material on SRI?

*Did the advisor give any information material on SRI? (oral, prospectus, brochure, refer to website?)*

## **Appendix 9: Questions aux banquiers et observation**

### **SRI communication:**

- Est-ce que vous offrez les produits d'investissement socialement responsables?
  - Est-ce que les produits proposés sont vraiment durables?
  - pourquoi vous appelez cela ..... oui ou non-durable, oui ou non-éthique selon le cas
- Est-ce que vous pouvez m'expliquer la différence entre ISR et les produits non-ISR et la différence entre les catégories d'ISR?

### **ISR performance**

- Quel est la différence de rendement entre les produits socialement responsables et les produits non ISR ?

### **Communication empathique**

- Est-ce que le spécialiste est capable d'expliquer les produits sur son aspect ISR sans difficultés? Est-ce que il semble sincèrement intéressé d'ISR? Il connait le sujet bien?

### **Sélection et contrôle d'ISR**

- Est-ce que vous avez un contrôle permanent des produits ISR?
- Qui est responsable de procédure de sélection et le contrôle? Est-ce que vous avez un contrôle externe mis en place? Chez qui concrètement ? Ou est-ce que je trouve cela dans la documents ?

### **Documentation et information supplémentaire**

- Quel type de matériel est offert? (information orale, prospectus, brochure, référence site internet, invitation sur un séminaire qu'il organisent ou vont organiser, référence vers un livre , .... ?)

## Appendix 10: Mystery visit reports

*The mystery visits were done between 11<sup>th</sup> April and 20<sup>th</sup> April in Brussels. Some of the branches were visited spontaneously and with some branches a meeting was fixed in advance.*

### (K1) KBC Place Stephanie

*Consultation started with a description of different risk profiles. The advisor introduces the risk pyramid of KBC and he suggests to investing the most of the amount (100 000 €) in capital protected funds with lower risk. The peak of the pyramid can be invested in more risky assets, such as SRI.*

#### Basic communication on ISR

The advisor knows that KBC has ISR funds. Proposes to invest 30 000 in more risky funds and part of them in SRI as those funds are more risky, for example funds investing in water and green energy. He mentions that KBC has different themes such as water.

For 50 000 €, he proposes to invest in “privileged portfolio PRO 85”, which is 85-95 % capital protected. He says 85 % of the companies in this portfolio are screened ethically and are certainly ethic. He says that KBC is not investing in certain controversy sectors like weapons and therefore this fund is certainly ethic. He explains the portfolio cannot be 100 % ethic as asset managers are making changes every day and the screening SRI committee cannot react so fast. The rest 15 % can be invested also in controversy sectors such as tobacco.

[https://multimediafiles.kbcgroup.eu/NG/feed/am/funds/FA/FA\\_BE0946432037\\_EN.pdf](https://multimediafiles.kbcgroup.eu/NG/feed/am/funds/FA/FA_BE0946432037_EN.pdf). Attention: The privileged portfolio PRO 85 is not an SRI portfolio!

The advisor does not mention best- in- class criteria or explain differences between SRI strategies.

#### Performance

The advisor says the performance of SRI is the same, even though he acknowledges many people doubt the performance. It is more challenging for SRI funds to perform, as non-SRI funds have more strategic options regarding companies they invest in. For example, if there is a war coming, non-SRI funds invest increasingly in armament industries.

#### Control

The advisor knows that KBC controls SRI funds by an external committee that is composed by academic professors and other experts.

#### Empathic communication

The advisor is enthusiastic to speak about different options, but not particularly enthusiastic about SRI. Nevertheless, he recommends non-SRI as a SRI.

#### Communication

He gives a brochure “guide de fonds KBC” dating from 2008, which lists basic information about all the funds, also SRI and explains some basic details about SRI with the brochure. The brochure mentions the external committee and that the SRI criteria are based on certain criteria of sustainability. “ *Ce compartiment de KBC ECO fund investit dans la selection d’actions d’entreprises de la zone euro, presentant un caractere durable. La selection des entreprises est effectué par la cellule « durabilité » de KBC Asset management. Analyse de durabilité du conseil consultatif externe assist KBC asset management dans le développement d’une methodologie de recherche et garantit l’indépendance de l’analyse.* »

He also advises to go to KBC asset management website for more information and gives a copy of the investment profile pyramid and draft of the amounts invested as well as names of some of the funds

## **(K2) KBC Marnix**

*First the advisor tells general information about KBC investment policy and the KBC risk pyramid. Then we define the risk profile and the advisor proposes different options dividing the capital in capital protected investment products and some in more risky open ended funds as demanded.*

### **Communication about SRI**

The advisor knows that KBC has sustainable products and he mentions green funds right away. He does not give specific information why those fund are ethic, even if asked. He neither mentions best- in- class funds or cannot tell based on which criteria the funds are screened.

### **Performance**

The advisor is hesitating when asking about the performance of SRI. He says that Green funds have lost a lot of value last years because of the crisis and are not very profitable for the moment. As there are more profitable investment opportunities such as mining and construction, sustainable investments in his opinion are the last thing KBC is interested for the moment.

### **External control**

When asking how KBC can be sure their funds are SRI, he says that it is the responsibility of KBC asset management to define what is sustainable. He does not mention anything about external board.

### **Empathic communication**

The advisor changes the topic each time when asking about SRI. He is not really answering the questions. He is only talking about the most profitable options. In general SRI options are not capital protected, and that is why he is not recommending those options. SRI options are riskier. He thinks it is not interesting for KBC to have capital protected SRI funds because it is expensive and SRI is not the priority for the moment. Also, there are more profitable options than SRI. Nevertheless, he promises to look into SRI options and send a concrete proposition by mail.

### **Communication material**

The advisor prints fact sheets of KBC Eco Fund Sustainable Euroland and KBC Eco fund World . He proposes to invest max 10 % of the investment in SRI.

In addition, he gives many other product brochures and leaflets: KBC time deposit account, 5 year KBC IFIMA N.V. Note, KBC time deposit, KBC Equisafe, KBC Equisafe duo coupon 15, KBC participation Buyback 1, KBC participation flexible portfolio, KBC Exposure Index Jumber Europe 15, KBC exposure conditional plus.

Later he sends a letter by mail , in which he proposes investment in two KBC ECO funds 5000 € X 2, as those funds seem to have upwards movements since the crises and now is good moment to invest as the prices are low.

### **(K3) KBC Porte de Tervueeren**

*First the advisor asks basic details about the investment amount and my investment plans. He starts to tell about different products before really talking about the risk profiles. First he suggests different types of long term saving accounts and branch 21 insurance, which revenue is tax deductible.*

#### **Basic knowledge about SRI**

When asking about SRI, he knows that KBC has sustainable funds. He is able to tell basic details of SRI: money is invested in companies that respect environment, pollute less and have good social policies. Also some sectors like weapons are excluded.

#### **SRI performance**

He is sure the performance of SRI is less than non-SRI funds. The performance is less because other sectors and developing countries polluting more are more profitable than green energy etc.

#### **External control**

The advisor knows that SRI is chosen by KBC SRI Experts. He does not mention the external committee, but he finds it fast on a fund info sheets on his PC. He says SRI is controlled by external organization, as mention in the fund fact sheet, but he is not familiar with its composition.

#### **Empathic communication**

The communication is very honest and objective. Even though he is not really recommending SRI because it is more risky and less profitable, he is willing to explain how it works, search for information and seems to know about green economy. Respects and listens to client's needs.

#### **Communication material**

The advisor gives no reference to the website.

He prints out KBC newsletter, 7 leaflets of the new products of the month (4XA4), simulation life capital, fixed savings account, obligations and five fact sheet of KBC ECO funds.

### **(K4) KBC Ma Campagne**

*The meeting starts with very profound definition of my risk profile based on a four page long questionnaire. The advisor does not mention any investment products before the profile is defined. After the risk profile is defined, I have to sign the questionnaire to confirm all the information is correct. My risk profile is defensive.*

#### **SRI basic knowledge**

The advisor knows that KBC has sustainable funds and that those funds are open ended. She cannot define how SRI is different from other investment funds. She can only say that SRI is chosen by experts. She looks for information on a brochure dating from 2008, from where she can read SRI is controlled by KBC and external entity. The advisor does not seem to have any kind of basic knowledge on SRI. She cannot mention any SRI criteria when asked or different types of SRI categories.

#### **Performance**

The advisor thinks the performance of SRI is the same as non-SRI funds. She does not seem to know why there would be difference. She believes sustainable enterprises perform better in the long term, because they have more control on their business.

### **External control**

The advisor does not know the answer herself, but checks it on a fund fact sheet. Nevertheless, she does not know the composition of the external board.

### **Empathic communication**

The advisor does not have good knowledge of SRI. She is more willing to follow the determined risk profile than answer questions about SRI funds, which are riskier. She wants to stick to the risk profile that was defined defensive and does not want to give information on riskier products.

### **Communication material**

The advisor prints out one SRI fund KBC Institutional Fund Global SRI Defensive 1, which risk lever is lower than other investment products.

She gives a reference on KBC asset management website as it is mentioned on the fund fact sheet.

She also gives several brochures on other KBC products and funds.

## **(K5) KBC Etterbeek Jacht**

*In the beginning the advisor gives general information about the risk profiles and the risk pyramid defined by KBC. He does not ask many personal questions, such as age, revenues and work. He is rather asking about my interests. The advisor starts by classifying different options regarding their time line and risk profile.*

### **SRI basic knowledge**

When asking about SRI, the advisor knows KBC has such products. He starts to speak more about SRI funds before I even think about asking further questions. He says SRI funds invest in ecological companies. After, he lists all the different KBC ECO fund categories: water, renewable energies, climate change and agriculture. He also mentions that certain sectors such as arms and defense are excluded. After he opens the KBC asset management web site and lets me see the different definitions. He seems to know the SRI funds very well.

### **Performance**

He believes the performance of SRI is the same as non-SRI funds and he tells he is investing in SRI himself.

### **External control**

The advisor knows well that KBC has an external committee composed of academic professors, experts in sustainability, who are independent from KBC.

### **Empathic communication**

The advisor is very interested in SRI himself. He says he is investing in SRI and gives a lot of information of the performance of different categories etc. He is willing to give a lot of information about SRI and concentrating mainly on SRI funds since I mention them. He also talks about SRI impact on society, economic trends and sustainability in general.

### **Communication material**

The advisor gives fund fact sheets of all the ECO fund categories: water, agriculture etc. He also gives the sustainable investment Monitor bimonthly news letter, which can be subscribed on KBC asset management website. He mentions KBC AM website as a reference several times. During the meeting, he also shows KBC asset management SRI page and lists of SRI screened companies. He gives material also on other funds and two KBC books about international food.

## **(D1) Dexia place Stephanie**

*The consultation starts by definition of the risk profile: fixe, protégé, dynamique etc.*

*The advisor proposes to invest 80 % in capital protected products such as “EUR Step Up 14”, which has a guaranteed performance and the interest rate arises each year. The rest 20 % can be invested in more risky funds. This is because of the risk profile: I am young and still want to do investments in the future and not to lose money.*

### **Basic communication**

When asking about ethical or SRI funds, the advisor is confused and starts to search on his computer. He knows Dexia has SRI funds, but he cannot define why those funds are ethic or how they are screened. He does not find definitions; he finds SRI fund fact sheets.

After all, he proposes to invest 15 000 in SRI and 10 000 in a non-SRI fund “Dexia High fund of funds” because the performance and diversification of the non-SRI funds is better.

### **Performance**

He is sure the SRI performance is less non-SRI funds. He cannot not justify why he thinks so, but he says he knows it. Later he explains that SRI portfolios are less diversified than non-SRI.

At the end of the visit, I ask why some of the companies appearing in SRI portfolios are also in “Dexia plan high fund of funds”, and at the end he says he thinks SRI is just marketing and there is no real difference.

### **Control**

When asking about the control of SRI, the advisor cannot say anything more about SRI screening than it is done by Dexia AM.

### **Empathic communication**

The advisor has very little knowledge about SRI. He is very helpful and trying to answer all the questions, but doesn't really recommend SRI because he thinks it is too risky. Nevertheless, he promises to call Dexia asset management and send more information by email.

### **Communication material**

He prints out three SRI fund info sheets, Dexia sustainable North Africa, Pacific and Europe. He also proposes to call Dexia AM and to send me an email with additional information about SRI as he cannot find SRI support on his PC. He gives no reference on the Dexia asset management webpage.

Eventually, he sends the Dexia Asset Management SRI brochure by email on the next day!

## **(D2) Dexia Porte de Namur**

*First advisor asks some basic questions about revenues and future plans and tells about different risk profiles at Dexia. She proposes to divide the amount in current and long term saving accounts, pension savings and the rest on more risky products. She proposes to invest 20 000 € in risky free investments products and 80 000 € is placed to insurance products and funds etc.*

### **Basic communication about SRI**

The advisor knows that Dexia has sustainable products. She describes SRI very generally as funds investing in companies respecting environment and employees, excluding certain activities, but cannot name which ones. She also mentions ECO funds. Definition of SRI does not seem to be clear. Cannot really tell why it is called SRI/ ethic. The advisor does not find a definition on SRI on her PC.

Eventually, the advisor proposes Dexia Life values insurance fund, but she is not sure those funds are SRI. Promises to find out and send an email afterwards.

### **Performance**

She believes that SRI performance is more or less the same, but mentions that SRI funds have less strategic investment choice than non-SRI.

### **External control**

She is sure SRI is controlled regularly by **Ethibel**, and she mentions several times that Ethibel gives SRI label to Dexia SRI funds and therefore those funds are certainly ethic. It seems the advisor has very obsolete information about SRI, as Dexia stopped collaborating with Ethibel regarding SRI funds since 2005.

### **Empathic communication**

The advisor is listening very well and proposing products based on my questions, but not really ambitious about SRI. She does not have a lot of knowledge about SRI.

### **Communication material**

The advisor prints out prospectus of five SRI funds: Dexia sustainable Europe, Pacific, World , North America and EMU.

She does not give a reference to Dexia website.

As she proposed to invest in Dexia life values (ethic), she prints out a simulation for 80 000 €

In addition, gives fact sheets of Dexia Life Horizon and Safe invest control by Dexia and a newsletter about SRI **dating from 2007**, which the advisor finds on her PC.

## **(D3) Dexia De Brouckere**

*First the advisor is asking many personal questions about revenues, familial situation, employment, age, future plans etc. The she asks about the investment amount and what kind of opportunities I am interested in. She proposes to keep certain amount as a pillow on saving accounts in case of sudden investment needs and she also proposes to open a pension saving account with task reduction. She is not recommending very risky investments.*

### **Communication about SRI**

When asking about SRI, she knows that Dexia has SRI funds. She cannot define why they are ethic or sustainable. She knows that SRI is investing in companies that are not using child labor and genetically modified components (GMO). She cannot say anything else. Then she starts to look the word ethic on the dictionary. The definition is not really about SRI funds, but what is ethic in general: based on internal norms and values of a person. She tries to find information on her PC, but cannot find any information.

### **Performance**

The advisor thinks that SRI can be as profitable as non-SRI funds , but acknowledges that they have less strategic investment options than non-SRI funds, which could have an impact on the performance.

### **External control**

When asking about control, she says that someone at Dexia is especially dedicated to analyze companies that are sustainable. Does not know in more detail or mention the external board. Also, catastrophes like Japan earthquake could impact on the performance of some SRI funds (Dexia sustainable Pacific).

### **Emphatic communication**

The advisor is not an SRI expert. She does not really know about SRI, but does everything in order to find more information. She warns several times that SRI is not capital protected. Does not recommend SRI, because it is risky and I should start with ore defensive investments.

### **Communication material**

She prints out info sheet of Dexia sustainable Europe, North America, Pacific, World and Europe and Dexia Equities L Europe Growth. She does not have brochures to give, but she gives the latest general news brochure “vos investissement”, which does not have SRI content.

She also gives brochures on other products: Dexia life plan, Dexia funding Netherlands Interest Notes 26 and EUR Step up 14, Dexia compte d’épargne pension.

Moreover, she proposes to go to the website (Dexia bank, not AM), there is all the information about products.

## **(D4) Dexia Rue de la Loi**

*The meeting starts directly by a discussion what kind of different investment options Dexia has. No risk profile is defined, but the advisor asks what kind of risk I would like to take etc.*

### **SRI basic knowledge**

The advisor knows that Dexia has SRI funds. In general SRI funds invest in ecological companies. He says SRI funds certainly do not invest in arms; and also some other bad sectors like tobacco are excluded. This is not true, as Dexia is investing in all the sectors. He does not seem to be sure about the exclusion criteria. Later he says SRI does not invest in child labor either. He gives no specific definition of best-in-class or thematic funds. He uses the Dexia retail website to find more information about SRI funds, mainly regarding prospectus and the composition of the SRI funds.

### **Performance**

The advisor thinks the performance of SRI funds is the same as non-SRI funds. This is because investors should always be ready to invest in funds in the long term in order to gain profits. He does not believe in short term investing in general and therefore he believes that the profitability in the long term can be good regardless of it is SRI or not.

### **External control**

He says SRI funds are defined and selected by an external organization, Ethibel. This is already another advisor at Dexia, who has very obsolete information about the external control of SRI as Dexia stopped to work with Ethibel six years ago.

### **Empathic communication**

The advisor seems to know about SRI funds and he says more and more people are investing in them. He believes in SRI and its performance and is ready to give a lot of information on SRI funds (fact sheets, prospectus). Has a 20 year experience, he knows a lot about investments in general. Nevertheless, the advisor is not up to date with the latest changes, as Dexia quite collaboration with Ethibel in 2005.

### **Communication**

The advisor refers to go on the Dexia bank website, where I can find all the information about funds. He doesn’t give brochures on any products.

## **(D5) Dexia St. Josse-ten-Noode**

*First the advisor tells about different investment options and how risky they are. Then she informs generally about different risk profiles and mentions capital protected products, which are good for more defensive risk profile. In general, she recommends pension savings and long term fixed savings accounts.*

### **Basic knowledge about SRI**

The advisor knows Dexia has sustainable funds. She mentions right away that SRI funds are not capital protected. She knows SRI funds pay attention to ecology, do not use child labor, and are in general ecological. She does not know exactly which products at Dexia are SRI, and that's why wants to send information later by mail. She doesn't make difference between eco funds and best-in-class funds.

### **Performance**

She believes the performance of SRI is the same as non-SRI funds.

### **External control**

The advisor says there is a general rating list of all the sustainable companies in the world. The list comes from a global/ European organization, which is drafting general listing of all the sustainable companies. This organization is external from Dexia. The definition is very vague. She must have meant rating agencies. Nevertheless, rating agencies are not defining the Dexia SRI criteria.

### **Empathic communication**

The advisor speaks a lot, but seems really busy. She promises to send more information about SRI funds by email as she does not have time for the moment and she does not know exactly which funds are SRI.

### **Communication material**

She does not give reference to the Dexia website, or give SRI fact sheets or brochure, only a few brochures of other Dexia products.