

Mystery shopping

MiFID II Reform

Compliance with retail investor
sustainability preferences



November 2022

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About **ASUFIN**

ASUFIN is an association dedicated to the defense of financial consumers, founded in 2009. It is part of the **BEUC** (Bureau Européen des Unions de Consommateurs), the largest European organization of consumer associations. Its president, Patricia Suárez, also represents consumers on the Advisory Board of the **BSG** of the **EBA** (European Banking Authority), is part of the Investor Protection Committee (**IPISC**) of the **ESMA** (European Securities and Markets Authority) and is a member of the Financial Services Users Group (FSUG) of the European Commission's DG FISMA. In addition, she is a member of the Board of Directors of **Finance Watch**.

ASUFIN actively participates in the development of the digital economy, as a partner of the **Alastria**, network, and is part of the Finance for All program coordinated by the **Banco de España** and the **CNMV** (Spanish Securities Market Commission). The association develops, among others, financial and digital education programs, as well as on over-indebtedness and responsible lending, housing, insurance, investment and sustainable finance, within the framework of the 2030 Agenda. For all these reasons, the **Banco de España** and the **CNMV** have awarded **ASUFIN**, within the framework of the Finance for All program, of which the association is part, the 2021 Financial Education Achievements Award.

About **WWF**

WWF Spain is part of the WWF network, the largest independent international organization dedicated to the defense of nature and the environment. Founded in 1961, it works in more than 100 countries and is supported by nearly 5 million members worldwide. WWF's mission is to build a future in which people live in harmony with nature. WWF is a science-based, non-political civil society organization that works to conserve and restore biodiversity, the network that sustains all life on Earth; to reduce the ecological footprint of humanity; and to ensure the sustainable use of resources to support current and future generations.

Considering the impact of finance in the fight against climate change and nature conservation, WWF Spain carries out various studies and campaigns with the aim of contributing to accelerate the transition of the financial system towards sustainability.

About **the author**

Study carried out by **ASUFIN**'s Studies Department, in collaboration with Antonio Luis Gallardo Sánchez-Toledo. A graduate in Business Administration and Management from the Autonomous University of Madrid, specializing in Financial Management and Economic Research. After having worked in the securities company La Caixa (now CaixaBank) and in the Santander Group, he has been working for more than 18 years in the field of consumer protection and financial education, carrying out educational programs that includes the preparation of studies in the field of personal finance and insurance.

Introduction and methodology

The demand for sustainable financial investment products is becoming increasingly important, a preference that must be met by the different entities and companies that market investment products at different levels.

It is not only a question of **creating an adequate range of products**, mainly investment funds, but also that the characteristics of these products have an adequate approach towards sustainability, that the **customer's criteria of choice** are taken into account when expressing the preference for sustainability, or that the **staff of the marketing entities**, both in physical channels and through those online, have **sufficient training** when explaining the characteristics of a sustainable investment.

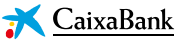



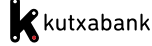







In recent months, legislative changes have taken place in this sector. **As of August 2, 2022, investment entities must expressly collect their clients' preferences, including those relating to sustainability, environment and governance**, what is known as ESG: Environmental, Social, Governance.

Mystery shopping

In order to verify whether these changes have been implemented, we carried out this mystery shopping, which employs a market research methodology that collects the results through the actual observation of the offer addressed to the end customer.

To this end, 28 processes of registration or modification of investment profiles have been carried out in 12 entities, selected based on the data from INVERCO, the Spanish Association of Collective Investment Institutions and Pension Funds, in the month of August 2022. **The selected companies account for 82.50% of the market share of investment funds in Spain.** In 16 of them, the collection of results has been done in branches or physical offices and in 12 of them, online.

The **profile has always been of a retail client** (private client) and looking into the physical offices, in which up to two interviews have been carried out (CaixaBank, Banco Santander, BBVA, Banco Sabadell and Bankinter) a plurality of urban locations and with profiles of a more specialized manager combining with smaller locations and generic commercial profiles. The field work was carried out during the month of October 2022.

FINANCIAL INSTITUTION	MYSTERY FACE-TO-FACE	MYSTERY ONLINE	TOTAL
 CaixaBank	2	1	3
 Santander	2	1	3
 BBVA	2	1	3
 iberCaja	1	1	2
 kutxabank	1	1	2
 Sabadell	2	1	3
 bankinter.	2	1	3
 CAJA RURAL GESODIPERATIVO	1	1	2
 MUTUA ACTIVOS GRUPO MUTUA MADRILEÑA	1	1	2
 Unicaja Banco	1	1	2
 BESTINVER acciona	-	1	1
 renta4banco	1	1	2
TOTAL	16	12	28

Five key points

1

The suitability assessments carried out by most of the entities, which determine the investment risk profile, **do not yet include data that ask about preferences in sustainable investment**, and only focus on generic information about financial products. **It is necessary to take into account the exception of BBVA, which already does so** in this first mandatory step, when starting to deal with financial products.

2

After passing this first step, and in the product marketing phase, **75% of the face-to-face channel and 92% online do include information about customer preferences in sustainable products** and therefore facilitate their purchase.

3

One in three entities in the offline channel (31%) and slightly more than half in the online channel (58%) offer sustainable products as a first option, or clearly and obviously, on the first page when investing. In the online channel, where more specialized managers operate, a response was received within 24 hours in 83% of the cases.

The suitability assessment, mandatory to determine the level of financial knowledge and, with it, the marketing of products of different level of risk, is the investor's first major contact with the entity.

4

There is a strong lack of information. **Only in 38% of cases, in physical offices, has there been clear and sufficient information on what a sustainable investment is.** In the online channel, where more specialized managers operate, it was received in 83% of the cases, when limiting the reception to within 24 hours..

5

Only 18% of the products offered are sustainable while the remaining 82% are not. Of the five sustainable funds offered and analyzed, four correspond to Article 8 and only one, the Mutuafondo Impacto Social Fund, by Mutuactivos, has been classified as Article 9, according to the SFDR. The article 9 products in addition to considering ESG criteria, define environmental objectives to be met.


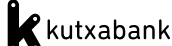

Sustainability criterion in the suitability assessments

The suitability criterion, which is mandatory to determine the level of financial knowledge and thus the marketing of products of different risk levels, **is the first major contact between the investor and the institution**. This step has been performed in all the registration processes or modifications of profile.

While a very noteworthy point is the heterogeneity of the suitability assessments, with some being much more complex and longer in their questions than others, the most relevant aspect for this study is **whether they are directly interested in preferences in sustainability criteria**.

The reality is that only one entity, BBVA, does so, while all the others focus exclusively on determining knowledge about financial products in general and thus determine their level of risk when offering investment products.

DOES YOUR SUITABILITY ASSESSMENT INCLUDE DIRECT REFERENCES TO SUSTAINABILITY?

FINANCIAL INSTITUTION	RESPONSE
 CaixaBank	No
 Santander	No
 BBVA	Yes
 iberCaja	No
 kutxabank	No
 Sabadell	No
 bankinter.	No
 CAJA RURAL GESCOOPERATIVO	No
 MUTUACTIVOS GRUPO MUTUAMADRILENA	No
 Unicaja Banco	No
 BESTINVER acciona	No
 renta4banco	No

Subsequent **preference questions**

Although there are still important shortcomings in the suitability assessment, these can be filled **if alternatives are presented to capture information on the investor's preferences**, always before the choice of products. In this case, we focus on relevant information about the existence of sustainable products in their portfolio, information about their nature, characteristics and risks, and thereby facilitate their marketing and contracting.

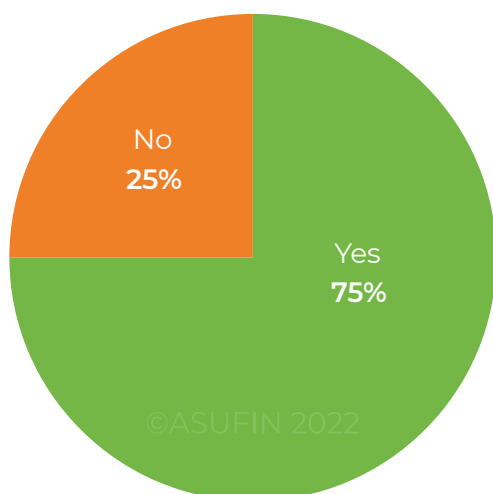
There is **a significant degree of non-compliance in the processes carried out face-to-face** (25%), even though in this channel it is the advisor who has to carry out the information and questions process, being responsible for recapitulating the information. The online process is different, since self-contracting is preferred, although this can be advised. In this **channel, sustainable products are clearly shown in 92% of the total**.

The nuance is found in Bestinver. Although the company stands out for the application of sustainability criteria when choosing its investments, its only product qualified as a ISR (Socially Responsible Investment) **does not appear prominent or separately**, but just as another fund within its range of equity funds, so the client must go through all the funds to see its characteristics. In addition, this product invests in three market trends: one, decarbonisation of the economy, which is fully identifiable as sustainable, while the other two, improvement of the quality of life and digitisation and automation, seem more ambiguous. They also use the term “long-term” as a claim when pointing out the environmental benefits sought by this investment, which can discourage investors who want a sustainable product to achieve more immediate improvements.

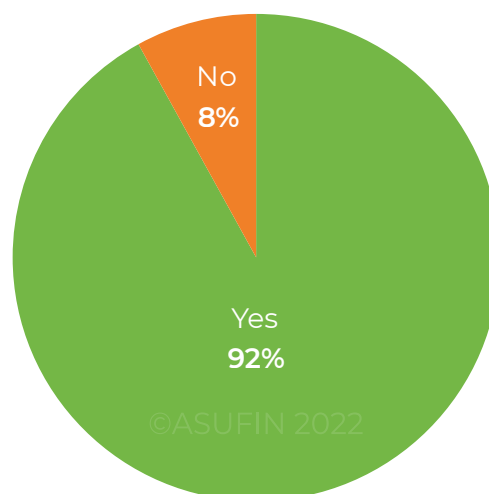
HAVE YOU BEEN ASKED ABOUT YOUR PREFERENCES OUTSIDE THE ASSESSEMENT?



FACE-TO-FACE



ONLINE



Sustainable products during marketing

Information and marketing criteria are much poorer. In **all the interviews we have indicated our preference for sustainability**, but it is not reflected when the marketing begins. In 70% of cases, the existence of sustainable products at the beginning of the marketing process was not highlighted, which can lead to many customers losing interest.

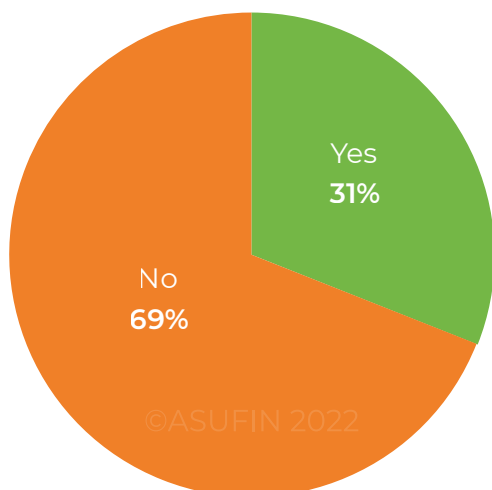
As we have pointed out, when choosing the online channel, the investment process is self-contracting, **it is therefore important that there is a clearly sustainable option in the initial choice**, especially on the first page. This practice is carried out by large financial institutions such as CaixaBank, Banco Santander or BBVA, with specialized ranges or filters at the beginning. In total they do so in 58% of the cases.

The remaining 42% do not present it clearly or attractively in this initial phase, having to carry out specialized searches, and sometimes not simple, to find them amongst the rest, discouraging their contracting.

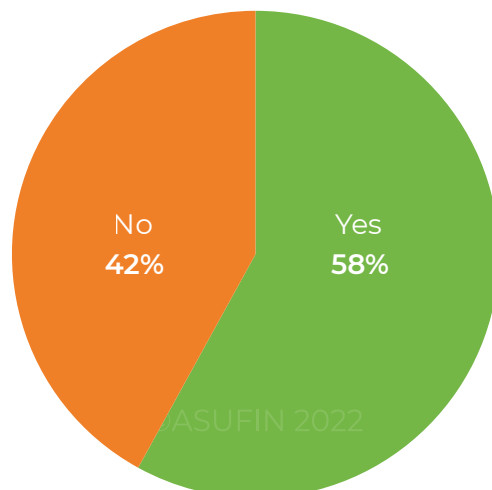
WERE YOU HIGHLIGHTED THE EXISTENCE OF SUSTAINABLE PRODUCTS WHEN STARTING THE SALES PRESENTATION?



FACE-TO-FACE



ONLINE



Information on ESG criteria

The lack of information is one of the most important shortcomings. It is not just a question of highlighting the products, but of explaining what they consist of, what their investment policy is and how they differ from other similar but unsustainable products. In the **offline** channel, only 38% of cases provided clear and sufficient information on what a sustainable investment is. This percentage is very low but in addition there is another problem, the existence of information asymmetry when perceiving this information.

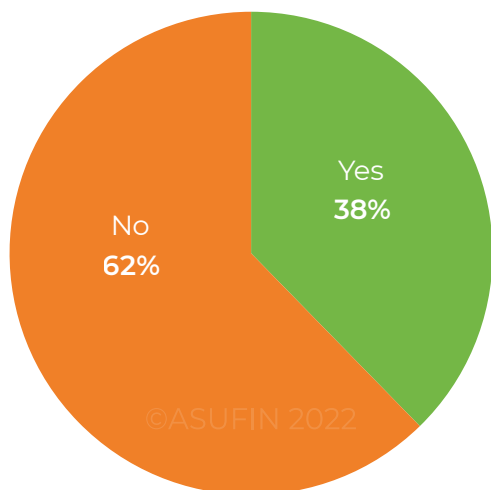
The best information is offered in large offices where there is the figure of a specialized manager, while it is more inefficient in smaller ones.

The process is different when contracting online. Beyond the information we can get, if we want more information we can resort to different channels of information, mainly online chats, email and to a lesser extent by phone. The response is better, especially when it is by email and in which a more specialized manager comes into play who does not have to answer immediately, **adequately servicing the customer and in less than 24 hours in 83% of cases.**

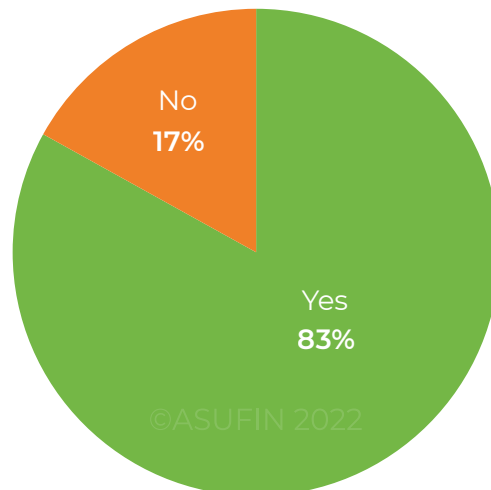
HAVE YOU BEEN PROVIDED WITH SUFFICIENT INFORMATION ON SUSTAINABLE INVESTMENT AND ESG CRITERIA?



FACE-TO-FACE



ONLINE



Products offered at the office

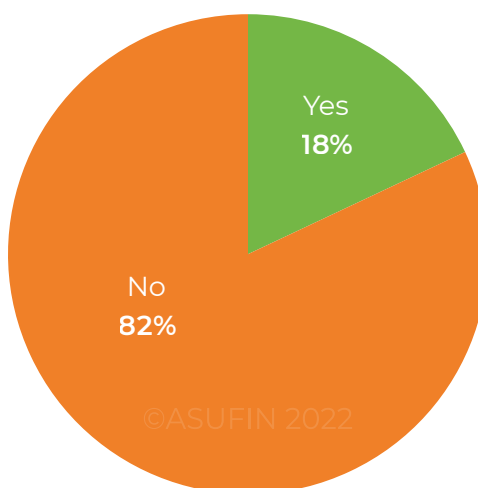
Many variables come into play when marketing products. **Sustainability criteria must be one of them, since we have expressly indicated them.** Therefore, it is important to know if they are considered as a priority or if other variables come into play, such as the weight of new products that are being marketed or others considered as “star” products, or claims on which they focus their promotional campaigns.

Despite the preference for sustainability expressed by the customer, only two entities, Caja Rural and Ibercaja, offer this type of product while marketing it in the branch. On the contrary, 82% of the rest do not, instead offering those considered a priority.

WERE SUSTAINABLE PRODUCTS PRIORITIZED IN THE OFFICE PRESENTATION?



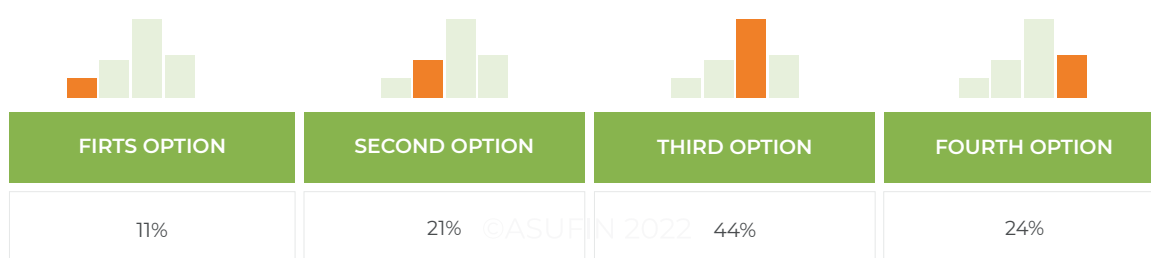
FACE-TO-FACE CHANEL



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Therefore, we tried to “force” them to offer us many products to choose from and thus analyze their order. In 44% of cases, a sustainable product is offered in third place; in 21% of cases, a sustainable product is the second option, and only 11% of the times is it offered as the first.

IN WHAT ORDER WERE WE PRESENTED WITH THE SUSTAINABLE PRODUCT?



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Classification of Sustainable Investment Funds

Of the products offered throughout the mystery shopping exercise, we have analyzed five of them, considered sustainable, to determine how they have been classified and their differences with respect to fees and profitability.

The five products analyzed are the following:



SANTANDER SOSTENIBLE CRECIMIENTO, F.I. (mixed fixed income)



BBVA FUTURO SOSTENIBLE (mixed fixed income)



CAIXABANK SELECCIÓN FUTURO SOSTENIBLE



FONDO BANKINTER SOSTENIBILIDAD R, FI



MUTUAFONDO IMPACTO SOCIAL, FI

FUND	ISIN	SFDR ARTICLE	APPEARS SPECIFIED IN ITS BROCHURE
SANTANDER SOSTENIBLE CRECIMIENTO, F.I.	ES0107782007	Article 8*	Yes
BBVA FUTURO SOSTENIBLE	ES0114279039	Article 8*	Yes
CAIXABANK SELECCIÓN FUTURO SOSTENIBLE	ES0184922039	Article 8*	Yes
FONDO BANKINTER SOSTENIBILIDAD R, FI	ES0115157036	Article 8*	Yes
MUTUAFONDO IMPACTO SOCIAL, FI	ES0164991012	Article 9*	Yes

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All funds that have been offered in this sample are rated as sustainable according to the European Sustainable Finance Disclosure Regulation (SFDR). However, of the five funds, only one is defined as Article 9 (SFDR), this in some way corresponds to the market, since in Spain there are few sustainable funds due to this more demanding criterion. **Currently, only 4.20% of the assets managed in sustainable funds are managed by Article 9 and 95.80% by Article 8.**


If we calculate this equity over the total funds in the market, only 1.02% are governed by Article 9 and 23.10% by Article 8

***Article 8:** A fund under article 8 that “promotes environmental and social characteristics” provided that the companies in which the investments are made follow good governance practices.

***Article 9:** Those that pursue explicit sustainability objectives.

A varied investment **policy**






Below are the variety of investment policies and characteristics of products rated as sustainable. Its variety makes the advisor's work even more important when matching the retail investor's expectations to their financial knowledge and objectives.

NOMBRE	POLICY
 BANKINTER SOSTENIBILIDAD	<p>Article 8 Regulation (EU) 2019/2088. Invests in companies included in sustainable, environmental and social responsibility (CSR) indices.</p> <p>The Manager must select, at least annually, a maximum of 3 indexes for companies to choose from among the groups:</p> <ul style="list-style-type: none"> DJ Sustainability Indices. Ethibel Sustainability Indices. Those prepared by Sustainalytics/ ESG Leaders and by CRD Analytics. FTSE4 Good Index Series. MSCI ESG Socially Responsible Indices.
 MUTUAFONDO IMPACTO SOCIAL	<p>Article 9 Regulation (EU) 2019/2088. The Fund aims at sustainable investments.</p> <p>Its portfolio must be invested following impact criteria mainly based on SDGs (UN Sustainable Development Goals).</p> <p>They focus on those people-centred social goals, in particular with the SDGs:</p> <ul style="list-style-type: none"> End poverty. Health and well-being. Gender equality. Zero hunger. Quality education. Reducing inequalities and sustainable cities and communities.
 SANTANDER SOSTENIBLE CRECIMIENTO	<p>Article 8 Regulation (EU) 2019/2088. Inclusive ESG Criteria:</p> <ul style="list-style-type: none"> More than 70% of the portfolio (direct and indirect) fulfills the ESG mandate. <p>Excluding ESG Criteria:</p> <ul style="list-style-type: none"> 100% of the portfolio cannot be in assets that are not aligned with the promotion of sustainability or that do not respect certain values from the ESG point of view. Excluded are, for example, issuers whose business is mostly oriented towards activities related to controversial armaments, conventional armaments, tobacco, as well as fossil fuels, coal-fired power generation and coal mining. <p>Regarding green bonds:</p> <ul style="list-style-type: none"> They follow the Green Bond Principles (GBP). The objective is to partially or fully finance new or existing green projects with a clear environmental benefit.
 BBVA FUTURO SOSTENIBLE ISR	<p>Article 8 Regulation (EU) 2019/2088.</p> <p>The majority of the portfolio must comply with the ethical ideology.</p> <p>It must have ratings, scores and sector analysis from MSCI ESG Research, which provides the sustainability analysis of companies.</p>
 CAIXABANK SELECCIÓN FUTURO SOTENIBLE	<p>Article 8 Regulation (EU) 2019/2088.</p> <p>Invest a minimum of 75% in Funds that follow sustainable investment criteria managed by companies of recognized international prestige in the field of investment with ESG criteria:</p> <ul style="list-style-type: none"> Environmental. Social. Corporate governance.

Fees, on average with the market

The fees are average for those of their respective category, although more economical, both in terms of management and deposit fees. In management fees, the most important commission, three of the funds are slightly more expensive than the average: Santander Sostenible Crecimiento, 0.37% more; Bankinter Sostenibilidad, 0.15% more, and CaixaBank Selección Futuro Sostenible, 0.03% more. On the other hand, there are BBVA Futuro Sostenible with -0.38% less and Mutuafondo Impacto Social, -0.32% less, but taking into account that this fund includes an additional 6% on profits. With this nuance, the negative difference is -0.03%.

For the deposit fee, the least important fee, this percentage is also very even. BBVA Futuro Sostenible is only 0.01% more expensive, and the rest is cheaper, highlighting CaixaBank Selección Futuro Sostenible with -0.10% less. Overall, the difference is -0.05% cheaper. We must bear in mind that many of the funds analyzed invest in other funds, which makes this commission cheaper.

NAME	TYPE OF INVESTMENT	MANAGEMENT FEE	AVERAGE MANAGEMENT FEE	DIFFERENCE AVERAGE FEE	FEE	AVERAGE DEPOSIT FEE	DIFFERENCE
 BANKINTER SOSTENIBILIDAD	International variable income	1.82%	1,67%	0.15%	0.09%	0.11%	-0.02%
 BBVA FUTURO SOSTENIBLE ISR	Fixed income international mixed	1.20%	1,58%	-0.38%	0.10%	0.09%	0.01%
 CAIXABANK SELEC. FUTURO SOTENIBLE	Global	1.73%	1,70%	0.03%	0.02%	0.12%	-0.10%
 MUTUAFONDO IMPACTO SOCIAL	International variable income	1.35% fixed + 6.00% on results	1,67%	-0.32%	0.04%	0.11%	-0.07%
 SANTANDER SOSTENIBLE CRECIMIENTO	International mixed fixed income	1.95%	1,58%	0.37%	0.05%	0.11%	-0.06%
		1.61%	1.64%	-0.03%	0.06%	0.11%	-0.05%






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INVERCO data (September 2022) and own calculations..

Higher long-term **returns**

In terms of an analysis of returns in the medium term, given the vocation for non-short term results of this type of funds, it is difficult to assess their progress. For this reason, we have chosen as a measure the funds' annualized return over five years. This has meant that we have to exclude two of the funds for not having said term: CaixaBank Selección Futuro Sostenible, which has not been around 5 years and MutuaFondo Impacto Social, which was launched in April of this year.

The average of the three shows better results, but in reality **only one of them does so prominently: Bankinter Sostenibilidad that with its 5.18% annualized returns greatly exceeds the category average of 2.65%**. The rest are negative, but by a small margin. The negative return of -1.09% of BBVA Sustainable Future is only 0.03% lower than its category average of -1.06%. In the case of Santander Sostenible Crecimiento, its return of -1.43% is 0.37% lower than -1.06% of its fund group. **In general, we must bear in mind that the general downward trend of the funds has weighed them down in 2021 and 2022.**

NAME	ANNUALIZED 5-YEAR RETURN OF THE FUND	ANNUALIZED 5-YEAR RETURN OF THE CATEGORY	AVERAGE RETURN DIFFERENCE
 BANKINTER SOSTENIBILIDAD	5.18%	2.65%	2.53%
 BBVA FUTURO SOSTENIBLE ISR	-1.09%	-1.06%	-0.03%
 CAIXABANK SELECCIÓN FUTURO SOTENIBLE	Less than 5 years	-0.11%	-
 MUTUAFONDO IMPACTO SOCIAL	Less than 5 years	2.65%	-
 SANTANDER SOSTENIBLE CRECIMIENTO	-1.43%	-1.06%	-0,37%
	0.89%	0.18%	0.71%

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Data: INVERSO (September 2022) and Morningstar.

Conclusions

Demand for sustainable investment is growing but the financial institutions' responses **has not yet fully adapted to these demands**. They theoretically offer products called sustainable, but problems arise in their marketing phase to customers who demand them.

Although in the marketing phase most of the entities, 75% of those carried out by the face-to-face channel and 92% of the online channel, point out the existence of sustainable funds within their portfolio of products, when it comes to contracting them they are not given the this level of importance, both in priority and in quality of information. This is despite the fact that the customer has reported having a preference for this type of product.

One in three entities in the offline channel (31%) and slightly more than half in the online channel (58%) highlight the existence of sustainable products as a contracting factor. But when it comes to reporting, after demanding this information, **only 38% of cases in physical offices provide us with clear and sufficient information about what a sustainable investment is**. It is true that, especially in bank offices, there is a certain deficit when it comes to clearly and accurately understanding the information of many financial products, and that often it does not go beyond the category of the product and its costs, but in sustainable investment funds this is even more evident in a fundamental aspect: knowing how to differentiate what is and is not a sustainable investment.

The lack of specialization seems the clearest reason, not only because of the differences between larger versus smaller offices, but also because the response of the online channel, where the figure of a specialized manager stands out. It is here, online, giving a margin of response time of up to 24 hours (by email in this case) where 82% provided appropriate explanations.

All of this partly explains why sustainable options do not occupy a preferential position when being marketed (11% as a first product option), but there is more. The marketing policy of financial products, and especially investments, tends to give priority or preferential treatment to certain "star" products, because they are just being launched or in a promotional campaign, and the commercial teams end up offering them on a preferential basis.

Therefore, it is essential that the client act critically: that they demand not only sustainable products, which increasingly has a wider product range, but also that the staff inform them about their characteristics in an appropriate way and that they question whether or not they meet sustainability criteria. **Financial institutions continue to be tempted by the priority sale of other mass products**, regardless of the customer's preferences, and for all this, client awareness is fundamental.

It is also critical that regulators and supervisors set **benchmarks to ensure that financial advisors adequately ask** retail clients about their sustainability preferences, require financial advisors to have minimum sustainability competencies, and ensure that everything that is marketed as a sustainable product really is.

Let's talk!



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Opening hours:
Mon-Fri: 09:00 - 18:00 H.



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