

Forewords

Pierre Gramegna, Minister of Finance

I welcome the ABBL's initiative to publish a guide on corporate social responsibility for its members. Such a toolbox of best practices in the area of corporate social responsibility, both in an international and local context, is a valuable contribution to support Luxembourg's banking community in its ongoing efforts and helps peers be inspired by and learn from each other when it comes to implementing CSR throughout their institutions and activities.

Taking into account the social and environmental impact of one's activities is today a necessity for any firm in any sector. Clients and shareholders alike pay increasing attention not only to financial returns or the quality of services and products they are offered, but also to the social and environmental footprint of a company: how a company treats its employees and the communities in which it operates, how it invests and how it contributes to global efforts to combat climate change.

The financial sector has a dual role to play in this context: first, like any other firm, by acting in a socially responsible way as a company and second, by channelling investments into green and sustainable projects.

One of the outcomes of the global Covid-19 pandemic will be a renewed focus on corporate social responsibility and, even more fundamentally, an acceleration of sustainable finance. 2019 was already a record year for sustainable investment funds in Europe, which saw investments increase by close to 60% compared to the previous year. Post-Covid-19, I am convinced that the demand for sustainable investments both by private and by institutional investors will increase. So will the offer of sustainable products and sustainable assets.

As part of their economic recovery plans and to make their infrastructure more resilient, many governments, particularly in Europe, will not only increase their investments in social and healthcare projects, for example, but will increasingly screen the sustainable nature of all public investments. Besides the continuous growth in the green bond market, there will thus be a significant increase in social and sustainable bonds over the coming months and years. The success of the Luxembourg Green Exchange will enhance Luxembourg's role as a sustainable finance hub.

Luxembourg, ranked as the 4th greenest financial centre in the world, is well placed to support these developments and further strengthen its role as an international platform for sustainable finance, allowing individuals, firms, multilateral institutions and governments across the world to invest sustainably and raise finance for green and sustainable projects.

Over the past few years, Luxembourg launched a number of key initiatives, such as a climate finance investment platform with the EIB (which was recently renewed for another 5 years with an additional investment from Luxembourg of 40 million euros), the international climate finance accelerator and the launch of new climate finance labels.

Luxembourg has always been a first mover in financial services. Just as was the case with UCITS back in 1988, the upcoming EU framework on sustainable finance, and more specifically the taxonomy to define green activities, represents another chance for our finance sector to pioneer and develop new market opportunities.

Beyond products, one key area that Luxembourg will need to also focus on going forward is developing additional sustainable finance expertise, through vocational training as well as academia, to ensure that client advisers, bankers, insurers and asset managers have the necessary know-how to accompany the ongoing finance transition.

Moreover, Luxembourg has set up a Sustainable Finance Initiative which will start its operations shortly, and which will help federate the various actors in the sustainable finance ecosystem and help implement the sustainable finance roadmap the country has given itself.

The European dimension will however play a central role in all of these efforts, and Luxembourg is committed to help drive the agenda forward at EU level. The Commission's New Green Deal Investment Plan targets 1 trillion euros of investment over the next decade (100 billion per year).

I believe that this project should go hand-in-hand with the economic recovery post-Covid, the overall aim being to build a more resilient, inclusive and sustainable European economy. This shift towards a more sustainable economy will help create new jobs and new business opportunities for European companies, as well as new investment opportunities.

Luxembourg and its financial centre stand ready to support this transition and help move from billions to trillions in sustainable investment.

Guy Hoffmann, Chairman of the ABBL

Acting in a corporate socially responsible manner is an absolute requirement in our industry. Understanding exactly what that means and, more importantly, ensuring that we communicate our CSR actions in a clear and transparent manner, is more difficult.

This excellent Guide, developed in collaboration with a whole host of experts from amongst our Membership, describes all the things you need to know in order to implement an effective CSR programme within your organisation, or to double-check where you are already positioned in your CSR efforts.

The toolbox approach means that the Guide can be followed from A to Z or can be dipped into on a specific topic as needed. From getting the terminology right, to engaging stakeholders, to developing a sustainable CSR strategy, all the key ideas are here.

The ABBL is proud to share this Guide with our members, and we will continue to work together with our members to promote a sustainable future for our industry.

The ABBL Management Board

Capitalist society, and the liberal framework of the market economy, convey an image of business as a wealth creator, combining human, material and financial resources in such a way as to produce goods or services with a view to generating and distributing dividends.

The 2008 crisis made it painfully clear that the natural order resulting from the operation of market forces lacks a human dimension. Henceforth, it can no longer be assumed that a business is there to be run solely on the basis of the short-term interests of the shareholders.

The persons in charge of running any business are under a moral duty not to be indifferent to the interests of third parties who come within its orbit (stakeholders), and also to respect the environment in which the business is established. Henceforth, ethical values need to be respected, since these are common to, and shared by, the whole of humanity.

Should the pursuit of profit now give way to the quest for the common good? Rather, is it not possible to take the view that the quest for the common good is wholly compatible with the pursuit of profit and that those two objectives may be closely linked? The moral principles governing the way in which a business operates may find expression, internally, in ethical charters, codes of values and rules of professional conduct. Such standards are sanctioned not by law but by the trust that is placed (or not placed) in them by stakeholders, and thus relate to, and affect, the reputation of the business in question. What becomes of a business if it has no reputation? The reputation of a business is the sole intangible factor without which it is bound to fail. Trust is not something that can be bought, but it is crucial if a business is to be able to function.

A reputation is built up over the course of many years but can be destroyed in no time at all. Businesses that understand this establish their values and resolve to act in accordance with those values. By behaving in this way over the long term, a business can build up its reputation and hence the trust that is placed in it. Conversely, a business which does not act in accordance with its values loses its credibility.

By creating a business ethic, a business becomes "responsible", that is to say, answerable for all its activities and all its behaviour vis-à-vis all its stakeholders. This is precisely what is meant by the term "corporate social responsibility".

By affirming their social responsibility, businesses go beyond the legal and regulatory requirements, in that they undertake to respect the standards linked to the development of society, protection of the environment and respect for fundamental rights, etc. By reconciling the interests of different stakeholders within a global approach to sustainable development, they integrate those considerations at the very highest level of their strategy. Reputation management is a key element of the strategy of a business. For this reason, CSR can help businesses to create a positive image for themselves and contribute to maintaining a good reputation and ensuring a satisfactory economic performance¹.

What is a bank's role in all this? Banks have a fundamental role to play in the financing of the economy, and therefore bear a heavy burden of responsibility towards society. They act as an essential partner in the everyday life of every citizen and every business.

For that reason, banks have significant input to contribute to the debate concerning social responsibility. During the 2008 crisis, they found themselves in the firing line and lost their credibility, their image having been severely damaged. In seeking to redeem their reputation in the court of public opinion, they must be capable of demonstrating their ability to renew themselves and to involve themselves in the key societal challenges which the public expect them to tackle, by means of sustainable investment products, micro-lending initiatives, reorientation of lending policy towards non-polluting industries and philanthropic causes, etc. Awareness of climate change is placing banks at the heart of the debate about sustainability.

Moreover, in order to attract talent, they must be able to prove to their new employees that they are adopting a responsible attitude in relation to their staff in line with a global strategy founded on solid values.

¹ The European Commission considers that "Where corporate social responsibility is a process by which companies manage their relationships with a variety of stakeholders who can have a real influence on their licence to operate, the business case becomes apparent. Thus, it should be treated as an investment, not a cost, much like quality management. They can thereby have an inclusive financial, commercial and social approach, leading to a long-term strategy minimising risks linked to uncertainty. Companies should pursue social responsibility internationally as well as in Europe, including through their whole supply chain." (EC Green Paper, 2001)

Lastly, in order to be credible and to strengthen their reputation, banks must be properly attuned to the ethical standards of modern-day society. Those standards are very different today from the ethical code prevailing 15 or 20 years ago. The continuity of a business no longer depends solely on its economic performance; it is also contingent on ethical criteria in areas such as:

- *Governance: sound governance encompassing control of processes, the adoption of codes of conduct respecting human values, and a broad vision of the corporate mission of the business accommodating both its own interests and the societal dimension*
- *Social aspects: promoting employment and reintegration into the labour market, involvement in the local social fabric, etc.*
- *Ecological and humanitarian aspects: respecting the environment, informing customers about the social impact of the products and services offered, etc.*

This must not be limited to a few measures designed merely to enhance the image of the business; in order to take on its full dimension and legitimacy, it must form an integral part of the strategy of the business.

It is against that background that this Guide has been drawn up, with the specific aim of helping ABBL members to develop such a strategy.

Taking into account the signature by the ABBL in July 2019 of the United Nations' Principles for Responsible Banking (UNEP-FI), following the adaptation in April 2019 of the ABBL's Code of Conduct to include a chapter on "Responsible Banking", it has become crucial for the ABBL to assist its members by providing them with the tools needed to implement those principles.

Catherine Bourin, Member of the Management Board, ABBL

Preface

This Guide is intended to serve as a methodological tool enabling the basics of a responsible strategy to be addressed in conjunction with standards and best practice, presenting concrete initiatives together with an implementation process and taking into account the particular characteristics of the banking sector in Luxembourg.

As banks, we are all well aware of the role that we play as partners impacting on the projects of citizens, businesses and institutions. By reason of the weight that we carry in the economy, we have a substantial and manifest societal responsibility as regards the financing of societal and environmental projects. In July 2019, the ABBL signed up to the United Nations' Principles for Responsible Banking; and it encourages all its members to ask themselves questions, and take concrete action, in that regard. In order to do so, we set up, with the help of the consultancy firm Forethix, a working group with which we organised awareness-raising sessions, discussions and co-construction workshops relating to the key methodological aspects needing to be considered for the purposes of drawing up this Guide. The working group's efforts were focused in particular on gaining an understanding of current CSR practices, but it also looked at ways of developing and sharing best practice within the banking sector. This Guide brings together:

- The results of the work done by the participants in the CSR working group*
- The results of the surveys carried out*
- The outcome of the interviews conducted with the main stakeholders*
- The participants' expertise on the ground*

There are 3 reasons why you should read this Guide:

- 1. In these times, when our planet is facing very significant climatic and environmental challenges, banks have a major role to play in terms of responsible actions and investments. The time for reflection has passed; what is needed now is action.*
- 2. Consumers in all industries have considerable power when it comes to choosing what to buy, what banks to use and how to live their lives. Recognising this aspect and integrating it into the future strategies of our banks appears to be absolutely crucial.*
- 3. Employees not only want their work to be meaningful; they also expect their employers to espouse responsible values, such as diversity amongst the workforce and the opinions expressed, sound management and good career development, and a positive impact on the community and the environment*

Our ambition is to motivate and to create a sense of responsibility. This Guide has the potential, on account of its methodological underpinnings and its sectorial focus, to become a real catalyst. It enables theoretical concepts to be rapidly integrated and, above all, to be put into operation. It shares the best practice followed by players in the Luxembourg financial marketplace and is thus firmly embedded in the Grand Duchy, which means in turn that it is able to motivate the reader, create synergies and establish a stronger and faster dynamic aimed at continuous improvement and progress.

We greatly value each of our members and appreciate the input they have provided. We hope the inclusive approach taken by this Guide will provide a real stimulus to the adoption of CSR within our sector.

Yves Lahaye, Chair of the ABBL's Working Group on CSR

Introduction

Objectives of the project

The project, launched in March 2019 on the initiative of the ABBL, is the first of its kind in the Grand Duchy, bringing together Luxembourg's banking institutions around the subject of CSR. For the working group, the objective has been to put together a practical guide to CSR which is dedicated and specific to the Luxembourg banking sector, based on the experience of the various players on the ground.

This Guide is designed to meet the needs identified by the participants:

- Building a common language and understanding of CSR for the sector;
- Ascertaining the state of play regarding CSR within the sector in Luxembourg;
- Identifying the thematic priorities for CSR within the sector in Luxembourg;
- Sharing the results of the work done by the working group;
- Providing inspiration by gathering evidence and compiling a compendium of best practice within the sector in Luxembourg.

The practical factsheets featuring in this Guide are designed first and foremost to serve as a tool and an inspiration for the development of a CSR approach to be adopted by the ABBL's members. This will enable each bank operating in Luxembourg to interpret and use those factsheets in a way that reflects its level of maturity and its strategic goals.

Conduct of the project

Based on a participatory approach and conducted under the methodological supervision of Forethix, the project took the form of 8 workshops, bringing together executives responsible for CSR within the Luxembourg banking sector and involving a survey conducted at national level amongst the sector's stakeholders in Luxembourg, including senior executives and CEOs of banks, institutions and local associations concerned with CSR, and interviews with the regulatory and supervisory authorities responsible for the financial sector. Each factsheet is the result of a thematic workshop held by the working group and including the participating ABBL members.

The project was designed and constructed around a step-by-step trajectory, prepared and facilitated by Forethix. That trajectory was made up of 8 workshops, in which the members of the working group had the opportunity jointly to construct each of the various stages, following a methodology bringing together the different international norms and standards relating to CSR².

² For more information on the normative context, please refer to [Factsheet 2](#).

- *20 March 2019* – The first of the working group's workshops aimed at building a common CSR language. The objective was to understand the context and sustainability issues for the Luxembourg banking sector. The findings of this first workshop are presented in the section [state of play, challenges and key figures](#) below.
- *17 April 2019* – The objective of the working group's second workshop was to identify, together with the participants, the thematic priorities for CSR within the sector in Luxembourg. The discussion within the working group centred on the methodology used by the Global Reporting Initiative and identified 20 topics grouped together in 6 broad categories. To find out more, please refer to [Factsheet 6](#).
- *8 May 2019* – The third meeting held by the members of the CSR working group was devoted to identifying the impacts and priority contributions to the Sustainable Development Goals laid down by the United Nations. The participants, divided up according to the various types of banking business carried on by them in Luxembourg, mapped the goals according to their levels of impact. To find out more, please refer to [Factsheet 6](#).
- *4 June 2019* – In the fourth of the working group's workshops, the participants sought to identify and evaluate the main stakeholders needing to be consulted in accordance with the principles laid down by the AA1000 Stakeholder Engagement Standards. That workshop resulted in the mapping of stakeholders shown in [Factsheet 5](#).
- *5 July 2019* – The participants held a fifth workshop aimed at establishing the structure of this Guide and charting the various learning processes and the results and achievements of the works undertaken. It was unanimously decided to adopt a simple, practical and functional approach to the presentation of its contents, on the basis that the Guide should comprise a "discovery" section providing explanations of the key concepts involved, an understanding of those concepts as they are applied in the banking context in Luxembourg, practical guidelines regarding implementation, and the sharing of best practice with a view to inspiring and motivating readers.
- *22 July 2019* – In the sixth workshop, the members of the working group focused on the engagement programme for priority stakeholders in the Luxembourg banking sector, with a view to identifying their expectations vis-à-vis Luxembourg banks with regard to CSR. Six groups of stakeholders were identified, and it was decided that they should be consulted via an engagement programme involving interviews, polling and presentations. To find out more, please refer to [Factsheet 5](#).
- *August – September 2019* – Polling of stakeholders within the sector, aimed at gathering information regarding their expectations and concerns in relation to CSR for the sector in Luxembourg. To find out more, please refer to [Factsheet 5](#).
- *October 2019 – January 2020* – Polling of stakeholders and implementation of the stakeholder consultation programme: questionnaires and interviews.
- *June – August 2020* – Drafting of this Practical Guide to Corporate Social Responsibility for use by the Luxembourg banking sector.
- *September – October 2020* – Rereading and approval of the Guide by the participants in the CSR 2019 project, initiated by the ABBL for and by its members, with a view to publication.

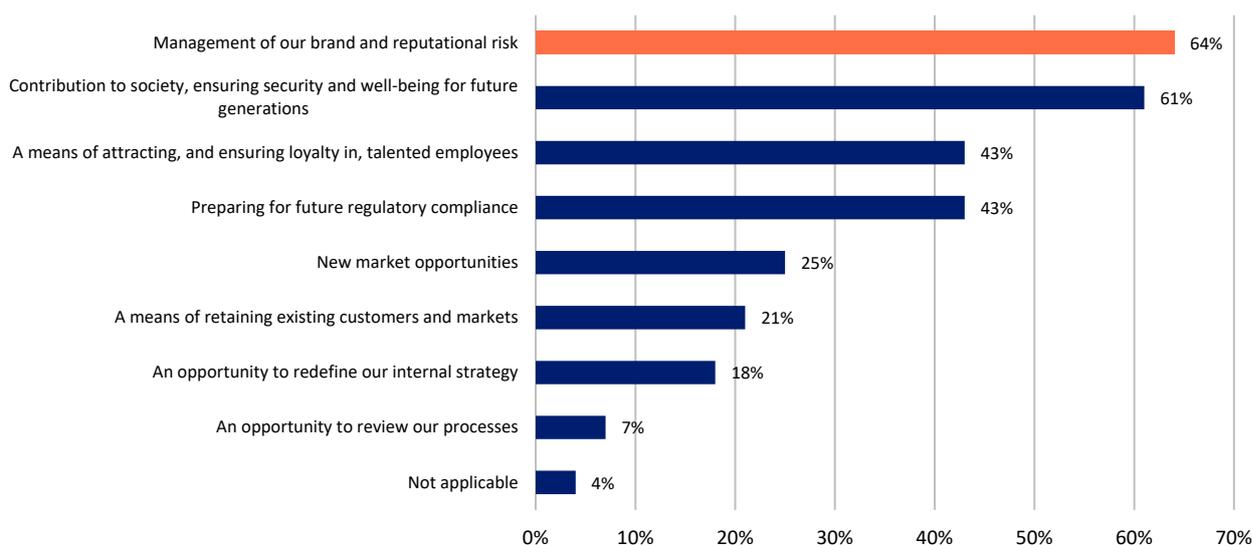
State of play, challenges and key figures

The sectorial survey carried out between November 2019 and January 2020 amongst retail banks, private banks, merchant banks, depositary banks and key external stakeholders (the Ministry of Finance, regulatory authorities and professional associations) shows that 62% of the respondents consider that the current CSR initiatives amount to little more than cosmetic and opportunistic virtue-signalling.

“CSR campaigns and initiatives do not feature amongst banks' priorities. To give an example: my banker is terrific, but he's never spoken to me about CSR. I note that some banks are seeking more than others to position themselves on this, because it's a topical theme.”

Pierre Gramegna, Minister of Finance

Although CSR is, according to the Minister of Finance, Pierre Gramegna, "fundamental for the financial market-place", 64% of respondents identified the main motivation drivers as being concerned with brand management and reputational risk, compared to 18% who saw it as an opportunity to redefine strategy and 7% who considered it an opportunity to review their processes.



For Claude Marx, Director-General of the Commission de Surveillance du Secteur Financier (CSSF):

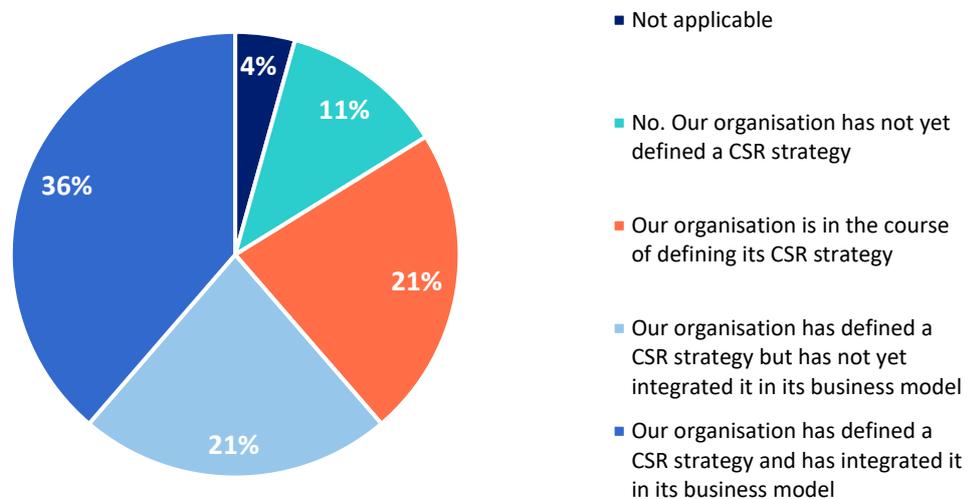
“CSR should be strategic; it enables businesses to carry out a critical review of their values and their modus operandi (business model).”

The main factors inhibiting the implementation of a CSR strategy amongst the participating organisations were stated by 66% of them to be linked to a lack of expertise and internal resources. 45% of respondents attributed the absence of action to their executives having insufficient time, faced as they are with numerous priority items on the agenda (low interest rates, new competitors and new types of actors, regulatory and reporting obligations, etc.), whilst 7% of respondents saw no obstacle to the adoption of a CSR initiative.



However, 57% of respondents had some form of CSR governance mechanism within their bank. Only 36% had a CSR strategy which was integrated in the bank's business model, whilst 32% did not yet have a CSR strategy at the time when the survey was carried out.

Does your organisation have a clearly defined CSR strategy?



About this survey: These figures emerged from the survey carried out between November 2019 and January 2020 amongst the ABL's members and their stakeholders. That survey involved over 25 organisations, including 13 banking institutions that were ABL members and three Luxembourg banks. The survey was supplemented by the participation of the following stakeholders, identified as key to the sector: the Ministry of Finance, the CSSF, the Luxembourg Stock Exchange, the Union des Entreprises Luxembourgeoises, the INDR, ProRSE, IMS Luxembourg, ACA.

Thanks and acknowledgements

We would like to thank our members for giving us their time and providing their expertise for the production of this Guide. This Guide has been drawn up on the initiative of the ABL, with the support of its members, within the framework of the working group on CSR chaired by Yves Lahaye and moderated by the Forethix consultancy firm.

Our particular thanks are due to the active members of the working group for their participation, their commitment and their willingness to share their experience with a view to promoting and developing CSR within the sector.



With the participation of the European Investment Bank

About the ABBL

The ABBL is the largest professional association in the financial sector, representing the majority of financial institutions as well as regulated financial intermediaries and other professionals in Luxembourg, including law firms, consultancies, auditors, market infrastructures, e-money and payment institutions. This makes us truly representative of the diversity of the Luxembourg financial centre, placing us in a unique position, able to give the entire sector a voice at both national and international level.

We provide our members with the intelligence, resources and services they need to operate in a dynamic financial market and in an increasingly complex regulatory environment. We facilitate an open platform to discuss key industry issues and to define common positions for the entire sector.

[Find out more](#)

About Forethix

Forethix is a leading independent consulting firm, dedicated to responsible investment and corporate responsibility. Our team of experts advises investment professionals and business leaders on the alignment of financial performance and sustainability. We help investors, asset managers, companies and political decision-makers at national and international level to understand and integrate ESG factors in their measuring, oversight and reporting systems, in accordance with international standards. We operate in Europe, in the MENA region and in Africa.

Forethix is a certified training partner of the Global Reporting Initiative in Luxembourg, Morocco and France, a GRI Data Partner for the Benelux countries, a verification expert for the Institut National de Développement Durable et RSE - Luxembourg, an Associate Member of LuxFLAG, a Service Provider under the UN Principles for Responsible Investment – UNPRI, and a signatory to the UNEP-FI Principles for Responsible Banking.

[Find out more](#)