

Germany Austria Switzerland

The total size of the institutional SRI market is over €3 billion in Germany and in Switzerland. It is likely below €1 billion in Austria.

The institutional SRI investment market is more developed in Switzerland than in Germany or Austria.

In all three countries (Germany, Austria, and Switzerland) the most important institutional SRI investors are pension funds.

The institutional SRI market relies mainly on screening and, to a lesser extent, on engagement.

I. SRI in Germany, Austria and Switzerland

Historical Background

Germany

SRI initiatives in Germany evolved in the 1970s from the ecological and peace movements. Alternative forms of economy and trade were discussed and tested. The concrete outcome of these movements was the foundation of the alternative bank GLS Gemeinschaftsbank (1974). Starting in 1989, the BfG ÖkoRent (now SEB ÖkoRent) was offered to the public as the first investment fund with SRI criteria. From 1991 onwards, the Renewable Energy Act facilitated the installation of wind power stations. Tax advantages endorsed the application of closed funds as a financing instrument and led to a broad perception of renewable energy as an investment sector. In the late 1990s, SRI in general experienced a considerable increase in prosperity. The shares of green companies, life insurance with SRI criteria and, above all, green investment funds became more and more popular. At the moment, more than sixty SRI institutional funds are on offer for private investors in Germany.

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Austria

Sustainable investment is a relatively new issue in Austria. Until the 1980s, very little action took place. A highlight in early sustainable finance activity is the Kommunalkredit Austria agency that provides subsidy credits to public entities in order to achieve substantial improvement on environmental matters. Loans are paid through the placement of environmental bonds among private and institutional investors. The first Austrian private sustainable investments in the 1980s were hydroelectric power plants, which were built with financial support from investors involved in the operating company. At the same time, biomass based local heat supplies emerged, funded through citizen participation schemes. Since the 1990s investment in green shares is promoted by a special Austrian publication.

Since the mid-1990s, life insurance products with sustainable components have been available in Austria. Today, assets can be invested in green investment funds, shares, bonds, projects and saving deposits. The number of SRI investment funds available to Austrian private investors has increased to thirty-two, of which eleven are of Austrian origin.

Switzerland

Swiss banks were among the first financial institutions to include the issue of sustainability in their business policy. Initially this consisted of environmental credit risk assessment. Another incentive for sustainable finance activities emerged from traditionally strong citizen involvement in Switzerland, which led to the foundation of two alternative banks. In 1990, Credit Suisse started its Eco Efficiency fund (now Global Sustainability Fund), followed by Bank Sarasin's OekoSar in 1994 and UBS's Eco Performance in 1997. In addition to these environment-focused funds, an ethical fund, the Prime Value, has been available since 1995. The development in the field of sustainable investment funds was accompanied by the formation of a number of research agencies dedicated to ecological and ethical matters, of which Centre Info (1990) was the first. In 1997, the Ethos foundation started offering its investment services to pension trusts. A big step towards a broader perception of sustainable investing was made with the creation of the Dow Jones Sustainability Index in 1998. SAM Sustainability Group and Dow Jones Indexes formed the index in order to focus investments on those companies whose sustainability performance beats most competitors within the respective sector. In Switzerland, about thirty investment funds with SRI background are available. Twenty of these are Swiss funds; most of them invest in shares of big companies with exceptional environmental or social performance.

SRI Policies and Definitions

Traditionally, SRI has a strong linkage to environmental issues

There is no generally agreed term for the concept of SRI in the German speaking countries. Rather there are more than five different terms, which are used to describe the concept of SRI. The specific meaning of these terms varies according to the user. Traditionally, SRI has a strong linkage to environmental issues. This holds true particularly for Germany, but also for Switzerland and Austria. A clear indication for that fact is the common use of “Grünes Geld” (green money) as one term to express the concept of SRI or the use of Öko-Fonds (ecological funds) as equivalent for SRI funds.

Over recent years however the dominance of environmental issues has decreased. The wide acceptance of the sustainability concept in German speaking countries has led to a broadening of SRI concepts. Socially responsible investment in Germany, Austria and Switzerland now integrates a diversity of criteria: ethical, ecological, eco-efficient, cultural and environment-technological.

While the concept of SRI in the German speaking countries has moved closer to the concept in other continental European countries and Anglo-Saxon countries, there is still a divide. CSR or community investments are not yet as influential in shaping the SRI market as they are elsewhere.

Market Structure

While the SRI market in Germany was originally governed by smaller specialised financial service providers, there are several large, and more mainstream financial service providers now active in the market as well. The same holds true for Switzerland and Austria.

Specialised research services evaluate companies’ environmental and social performance. These are Fifega in Austria, imug, oekom research, and scoris (sirigroup) in Germany, and Centre Info, Ecos, Inrate, and SAM in Switzerland.

Available Products

In Germany, there are special funds (Spezialfonds), which are established exclusively for institutional investors. Spezialfonds are investment funds pursuant to the Investment Company Act. Mutual (public) funds and segregated accounts are also a possibility for the institutional investors to invest in. Several Spezialfonds exist for SRI institutional investors. Also, there are some public mutual funds targeting mainly institutional investors.

Laws and Legislation

Germany

From January 2002 on, certified private pension schemes and some occupational pension schemes “must inform the members in writing, whether and in what form ethical, social, or ecological aspects are taken into consideration when investing the paid-in contributions” (§1 Article 1 (9) AltZertG). This disclosure regulation has been based upon the British example. It applies however only to a small segment of the pension fund market.¹ Within this segment it has had a distinctive impact. The rest of the pension funds market has seen some new SRI initiatives inspired by the new regulation, but no major shift.

In February 2002 the official “German Corporate Governance Code” was published. Companies have to confirm their compliance with the code at least annually, or explain deviations. The code summarises key statutory requirements on the governance of listed companies. It also provides recommendations taking account of nationally and internationally recognised standards. It contains “should suggestions”, which give individual companies ideas for good and responsible corporate governance.

¹ Reister products.

Austria

As in Germany, a major pension reform has taken place over the last few years. The introduction of a disclosure regulation has been an issue in the discussion towards that reform as well. However, the idea was not integrated into the new system. Still, most of the new pension funds, which have been set up as a consequence of the new law, will apply SRI criteria.

Switzerland

Swiss discussions on the pension system have also been affected by the introduction of disclosure regulations in other countries. However, the proposal to integrate such an obligation into the legislation for pension funds did not receive majority. As a compromise, the Swiss legislation foresees only a reporting obligation on the use of voting rights - an obligation, which is not restricted to SRI issues.

II. Financial Market Context

Legislation applying to other kinds of institutional investors and obliging them to use SRI disclosure does not exist in Germany, Austria or Switzerland.

An institutional investor is an entity with large amounts to invest such as pension funds, relief funds, churches and religious institutions, foundations, endowment funds, charities, investment banks, and insurance companies, although there is no established definition in German speaking countries. The most important SRI institutional investors are pension funds, thereafter churches and religious organisations, and finally foundations and NGOs. Also, SRI investment by insurers has some significance.

The most important SRI institutional investors are pension funds

Example: Pension Funds

In Germany, there are about 154 pension funds with €72.3 billion AUM.²

In Austria, there are twelve company pension funds and seven interplant pension funds with €8.3 billion AUM.³

In Switzerland there are around 3600 pension funds. Eighty-three of them are organised in a holding company, called Ethos. These asset foundations manage approximately 900 million Swiss francs, taking into account ethical, environmental and social aspects.⁴

The other important players on the financial market are the fund managers. The biggest ones are in (IPE Ranking 2002):

Germany

Allianz Dresdner Asset Management (€1 048 billion), Deutsche Asset Management (€726 billion), Deka (€122 billion).

Austria

Erste-Sparinvest (€16.2 billion), Capital Invest (€15 billion), UNIQA Finanzservice (€14 billion) and Raiffeisen (€13.8 billion).

Switzerland

UBS Global Asset Management (€384 billion), Credit Suisse Asset Management (€269 billion), Swiss Re (€105 billion).

² Yearbook BaFin 2002.

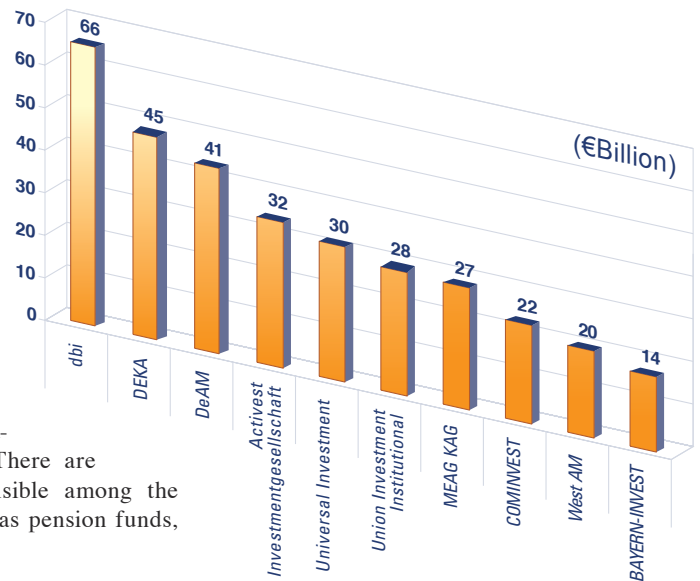
³ Fachverband der Pensionskassen, Wirtschaftskammer Österreich, 2002.

⁴ www.ethisches-investment.de

The table below shows the ten leading asset managers in Germany as of June 30 2003.

Table 1: AUM of institutional funds of the top ten Fund Managers in Germany

Source: BVI, Bundesverband Investment und Asset Management e.V., June 30 2003



SRI Market Context

In German speaking countries the market for socially responsible investment is growing steadily. There are some strong movements visible among the institutional investors, such as pension funds, foundations and churches.

In Germany, Austria and Switzerland there are about eighty mutual funds

In Germany, Austria and Switzerland there are about eighty mutual funds which take into account ethical, social, ecological and sustainable (SRI) criteria. In addition to pension funds and mixed funds (Mischfonds) there are equity funds with different SRI specific strategic positioning on the market.



See also www.nachhaltiges-investment.org

A study conducted on behalf of the “Gruenes Geld” (Green Money, 2001) show calculated that in 2000, approximately €1.06 billion (€ 319 million in 1999) were invested in SRI funds by investors in Germany, Austria and Switzerland. In the same year, green companies could acquire €332 million (€146 million in 1999) by issuing shares. The total volume of SRI funds offered in Germany, Austria and Switzerland was €2.92 billion in 2000, which represents a 0.4% share of total investment fund volume.

Furthermore, investors may contract life insurance contracts with SRI criteria (eight insurance companies have relevant offers) or participate in projects as entrepreneurs, in the renewable energy sector for example. The total volume of wind power projects surpasses €1.2 billion.

In Austria, twenty-two asset managers managed 1,837 investment funds with total AUMs of €102.7 billion as of 2002. The total AUM grew by €3.98 billion (4.03%). By the end of 2002 €70 billion were invested in mutual (public) funds and €32.71 billion in Spezialfonds. €217 million had been invested in ethical-environmental funds by the end of 2002.

In Germany, the total number of mutual (public) funds and Spezialfonds did not change dramatically compared to 2002. In 2002 2,419 funds existed with AUMs of €382.1 billion. As of June 30 2003 the total number grew to 2,452 with AUMs of €416.8 billion. The total number of institutional funds (Spezialfonds) in Germany as of June 30 2003 stood at 5,219 (5,347 in 2002) with AUMs at €505.3 billion (€480.3 billion in 2002) whereby 4,798 with AUMs of €474.2 billion are controlled by German institutions.⁵

III. Methodology

Data for the German speaking institutional SRI market was collected using the Eurosif questionnaire. To gather relevant information the supply-side investors, or asset managers, were contacted. In

⁵ Source BVI Bundesverband Investment und Asset Management e.V.

Germany, almost all asset management companies are members of the Federal Association Investment and Asset Management (BVI, Bundesverband Investment und Asset Management e.V.). Making a small pre-selection, excluding the real estate asset managers, and adding relevant members of the German Sustainable Investment Forum, sixty-three asset managers were contacted by phone and email. Seven of them gave indications on their SRI investment. Thirteen do not manage institutional portfolios or do not invest in SRI. Together the twenty respondents constitute a feedback rate of about 30%. In terms of SRI investment they certainly represent more than the market size. Firstly, because asset managers investing in SRI are more likely to answer the questionnaire than the others. Secondly, several of the respondents represent the large players in the market and are well known for their SRI involvement.

In Austria and Switzerland, sixteen asset managers each were contacted by phone and email. In Austria, five asset managers answered (two of which have SRI holdings for institutional investors), in Switzerland four responded (all of which have SRI institutional investments).

IV. Findings & Interpretation

Research

- Germany: the smaller asset management companies tend to use external research agencies to evaluate the products and companies; those working for big companies do have in-house research but use rating agencies as well.
- Austria: mainly use external research and rating agencies.
- Switzerland: most of the asset managers have in-house research teams.

Criteria

- Germany: mainly negative and positive criteria are used. Negative screening was introduced at the end of the 1990s and one to two years later positive screening was being applied. Engagement is a very new kind of involvement (2001-2002).
- Austria: mainly negative and positive criteria are used.
- Switzerland: screening (positive/negative) is used as much as engagement. The degree of exclusion that can constitute negative screening varies across fund managers. The most usual is: 5% share of turnover or 5% of the return. All of the known positive screen criteria are being used by the fund managers, applied by a best-in-class approach. The most common forms of supply side engagement activity that fund managers undertake are dialogue, shareholder voting for some of the products and collaborative initiatives mainly in the area of drugs.

Engagement was introduced over time from 1997 to 1999, and positive and negative screening a few years earlier.

Scope of SRI Criteria

SRI criteria are used for stock, corporate bonds and public debt.

Reasons for Involvement

The reasons for involvement are mostly customer demand-driven. Some of the asset managers are trying to distinguish themselves by specialising in sustainability (SRI) products. Another reason is the fact that sustainability criteria can influence the financial development and risk of a company and respectively the company's stock.

Size of the Market

In Germany, the total volume of the assets (retail and institutional) managed by the seven fund managers totalled €1,460 billion. €7.7 billion were socially responsible investments. The volume of institutional AUMs totalled €125.3 billion at the end of 2002. Assets invested in socially responsible funds by institutional investors came to €1.37 billion, which is 1% of the German institutional market.

In Austria, the overall market for socially responsible investments is relatively small. The AUMs of the two fund managers totalled €6.7 billion and only €109.1 million are socially responsible investments. €80 million were invested in socially responsible funds by the institutional investors.

In Switzerland, the total volume of assets managed by the four fund managers came to €142.8 billion, €2.15 billion of it are socially responsible investments. The volume of institutional AUMs totalled €1.34 billion at the end of 2002. Assets invested in socially responsible funds by institutional investors came to €1.25 billion, which is almost 2% of the institutional market in Switzerland.

Based on these answers, one can estimate that the total size of the SRI institutional market in Germany is likely to be above €3 billion. The same holds true for the Swiss market, while the Austrian market is still much smaller in size, and does not exceed €1 billion.

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