



ESG survey among Schuldschein investors: Positive feedback on sustainable issues

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- In the fourth quarter of 2020, Helaba carried out an online survey on sustainable finance among 818 members of staff in banks responsible for making decisions on investments in Schuldschein loans (SSDs).
- The overwhelming majority of participants believe that issuers of ESG-linked SSDs operate in a more sustainable way and would therefore have more business success in the long term. For this reason, a large number of those who took part would even be prepared to grant these companies preferential interest rates.
- Although a significant majority of the institutions surveyed already invest in Schuldschein notes with ESG components, most of them continue to pursue a rather more opportunistic approach when it comes to integrating sustainability-related factors into their investment processes.
- Despite the fact that, in principle, they have a clearly positive attitude towards the issue of sustainability, many investors remain hesitant regarding this new type of financing. It would appear that the scope and rapidly evolving nature of the regulatory framework often poses major challenges, especially for smaller institutions.
- In view of this, lawmakers should adopt a measured approach when it comes to regulating this segment. At the same time, banks supporting the issuance of Schuldschein notes are called upon to provide their clients with more effective information and in-depth advice, particularly when it comes to introducing new products and establishing new decision-making processes in their organisations.

Importance of sustainability on the rise - in SSD segment too

There was arguably no other segment of the capital and credit market that was talked and written about as much last year as that of sustainable finance. Meanwhile, this issue has also made its mark on the Schuldschein market. In 2020, 14 separate transactions raised an impressive EUR 2.6 billion from green and sustainability-linked SSDs, thereby boosting their market share from 10 % to 13 %.

That said, this segment still represents a comparatively recent funding option, to which both issuers as well as lenders are only just gradually becoming accustomed. Given this state of affairs, it seems entirely logical to ask investors about their approach to this issue, their experience and their future plans. For this purpose, between October and December Helaba carried out an online survey among 818 individuals in banks with responsibility for making decisions on investments in Schuldschein loans.

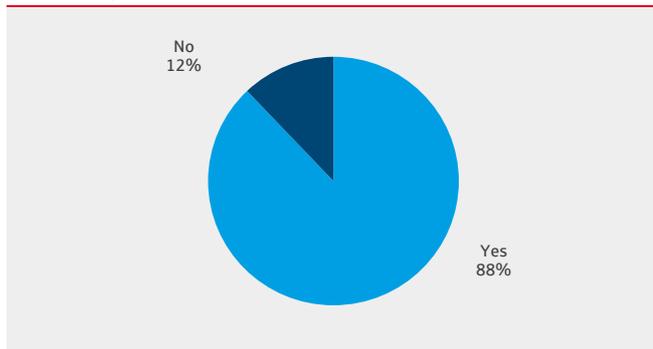
The survey consisted of 14 questions with multiple predefined answers and also included a custom text field in which respondents had the opportunity to share their own unique impressions, experiences or challenges. Among participants, 112 worked at German Sparkassen (savings banks) and 119 at other domestic German banks, while 587 were based at credit institutions outside Germany with a focus on the DACH region, France, Scandinavia and Asia. The encouraging response rate, which was between 5 and 37 % (median: 29%) for individual questions, shows that the issue is afforded a high priority in the institutions we surveyed. As much as a quarter of all questionnaires were completed in full. In particular, German Sparkassen and other domestic banks, with a response rate of 68 % and 45 %, respectively, proved to be especially interested in this topic.

Majority of investors persuaded of ESG value added

Admittedly, it would appear that particularly larger, mainly non-German banks have given the greatest amount of consideration to the issue of sustainability and have made the most progress in implementing it on an operational level. Nevertheless, the majority of all respondents have already addressed the topic and have come to the conclusion that sustainability should be a key factor in their investment decision-making process. Even though a fifth of survey participants consider the issue of climate change to be of particular concern, the bulk of respondents regard environmental, social and corporate governance factors as equally important.

Investors already addressing sustainability ...

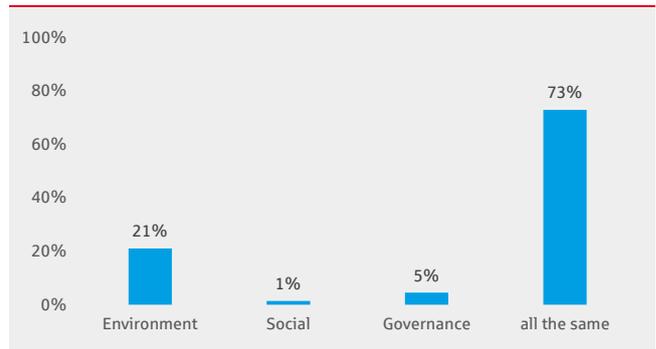
Has your bank already addressed the issue of sustainable investment (ESG)?
(306 answers)



Source: Helaba Research

... and regard ESG factors as similarly important

As a Schuldschein investor, which aspect does your bank regard as the most important? (285 answers)



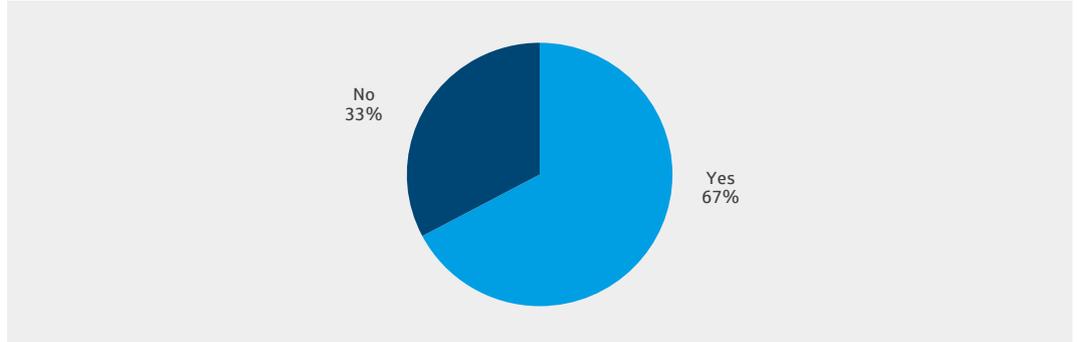
Source: Helaba Research

Reduced ESG risks as a pecuniary benefit

This is not only an indication of respondents' desire to take more responsibility for protecting the natural environment or for social causes. In fact, the responses also reflect tangible business interests. For instance, roughly two-thirds of participants are convinced that issuers of ESG-linked instruments operate in a more sustainable way and therefore have more business success in the long term. In other words, according to the experts surveyed, taking ESG aspects into account when making investment decisions is ultimately also reflected in a more attractive risk-reward profile.

SSDs with ESG components reflect well on issuers

Does your bank believe that issuers of green, social or ESG-linked SSDs are generally more successful in their business? (226 answers)

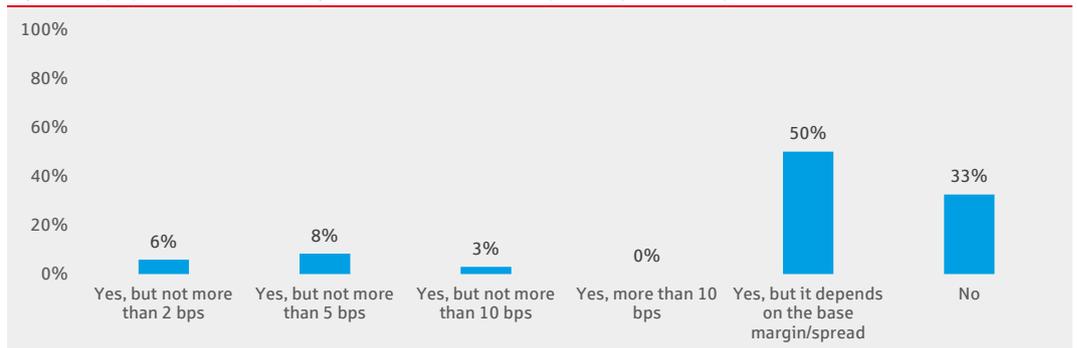


Source: Helaba Research

The conviction that, if borrowers take a systematic approach to considering sustainability aspects, this will translate into their debt instruments carrying a lower probability of default is also reflected in lenders' expected returns. For instance, 60 % of those surveyed are willing in principle to accept a lower interest rate in favour of reduced ESG risks. This willingness tends to be even higher if investors had already invested in a sustainability-linked SSD. Even so, half the participants still keep an eye on the overall rate of return of their investments, especially in the current low interest rate environment, and make this decision contingent on the underlying margin of the respective transaction. By the same token, however, this constraint could also lead to even greater price differentiation between sustainable and conventional instruments were interest rates to rise.

Lenders prepared to make concessions on pricing

Is your bank prepared to accept a lower yield for the sake of ESG compliance? (239 answers)



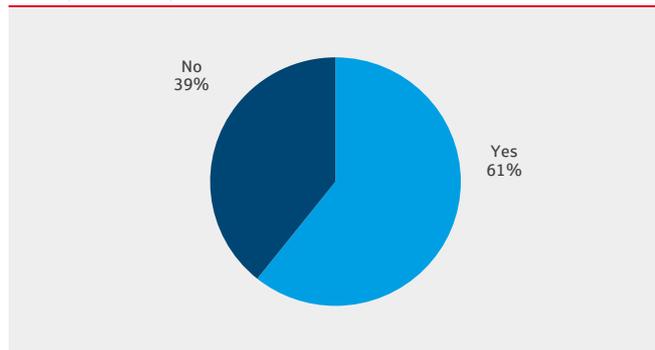
Source: Helaba Research

Majority already actively involved

Most survey participants are not just paying lip service to ESG, with 60 % already invested in ESG-compliant Schuldscheine. SSDs, in which the funds raised are allocated to predefined environmental projects, are the most popular. ESG-linked transactions with coupons based on specific sustainability indicators are the preferred choice for as many as 40 % of participants. However, in line with the situation on the overall market, the share of sustainable SSDs in portfolios remains fairly low - between 1 and 10 % for just over three quarters of respondents. At least 8 % of them have allocated more than a fifth of their budget according to ESG criteria, with non-German banks tending to have higher investment ratios than German institutions.

Significant majority already invests in ESG, ...

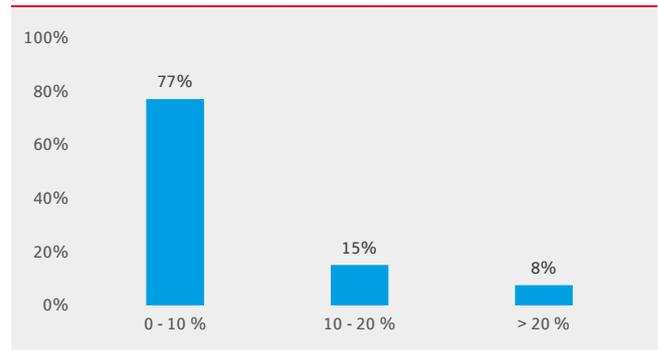
Does your bank already invest in 'green' or 'social' (ESG-compliant) Schuldschein loans? (275 answers)



Source: Helaba Research

... but share of total portfolio still small

How high is the share of SSDs with sustainability components as a proportion of your total Schuldschein portfolio? (158 answers)



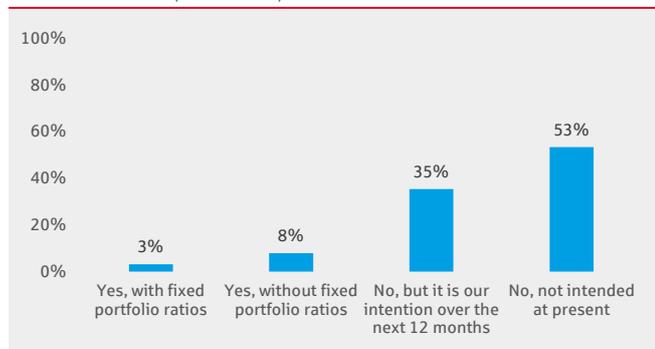
Source: Helaba Research

ESG aspects so far only loosely embedded in investment strategies

When integrating sustainability aspects into their investment processes, though, most of the respondents take a somewhat more opportunistic approach. Almost 90 % have not yet defined investment guidelines for sustainable investments. Despite this, a little over a third of participants are planning to make up ground on this issue within the next year. Even in institutions that have defined an ESG investment strategy, only around a quarter currently stipulate binding portfolio ratios. In addition, only 14 % of participants are planning to include ESG-compliant Schuldscheine as part of their investment targets over the next twelve months, while a third would at least like to address this goal in the long term. However, more than half of those who responded do not yet plan any such measures.

ESG still a rarity in investment guidelines, ...

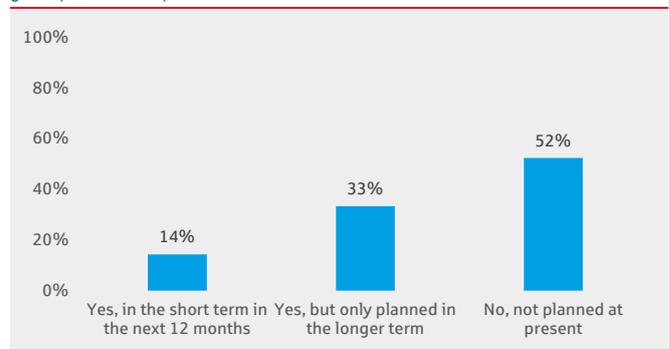
Has your bank already defined guidelines for sustainable investments in Schuldschein loans? (251 answers)



Source: Helaba Research

... but of growing significance in investment targets

Does your house plan to include ESG-compliant SSDs in relevant investment targets? (105 answers)



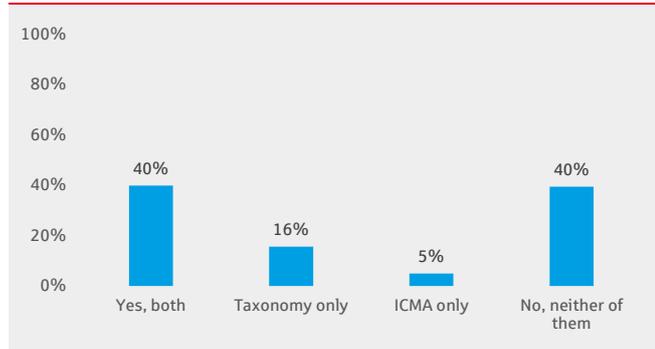
Source: Helaba Research

Complexity of legal framework still the main stumbling block

Although the answers we received indicate that, fundamentally, there is a decidedly positive attitude towards the issue of sustainability and many respondents already have some initial experience of the topic, a number of investors are evidently still unfamiliar with this new form of finance. Indeed, only a narrow majority of decision-makers have a generally more positive view of Schuldscheine with ESG components that of conventional transactions. This indifference is especially pronounced among (smaller) German Sparkassen. Around 60 % of participants still being unaware of at least significant parts of the forthcoming statutory provisions or standard market guidelines. That is why as many as three quarters of them want to be informed as a matter of principle about ESG-compliant investments. However, most do not want to be inundated with knowledge. As few as around 30 % expressed a desire for regular and focused information. Additionally, the existence of numerous sustainability agencies is perceived by the majority as something of an unwieldy labyrinth. It would appear that the scope and rapidly evolving nature of the regulatory framework often poses major challenges, especially for smaller institutions. The qualitative answers also indicate a substantial need for information on the in-house processes required, the rating agencies' methodology, statutory provisions as well as documentation and auditing requirements.

Guidelines and regulatory framework not well known

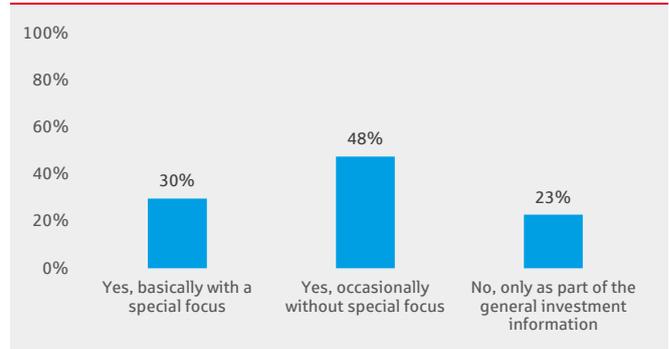
Is your bank aware of the statutory provisions ("taxonomy") and/or the Green or Social Bond Principles? (243 answers)



Source: Helaba Research

Investors want to be informed, albeit in moderation

Would your bank like to be informed about ESG-compliant investments in Schuldschein loans? (246 answers)



Source: Helaba Research

Success of Green Deal will largely depend on taking a measured approach to regulation

The question as to whether it will be possible to ensure that sustainable practices are more firmly entrenched in our society, also with the support of relevant financing solutions, is therefore largely contingent on the regulatory framework not placing too high a burden on stakeholders. Clear and manageable requirements that can be implemented quickly and have a long-term shelf life are what are needed. This is the only way to guarantee that innovative financial products will meet with greater acceptance among both borrowers and lenders alike. It will also be a crucial factor in helping to prevent large multinational banks from gaining a competitive advantage among lenders. However, banks supporting the issuance of Schuldschein notes are also called upon to provide their clients with more effective information and in-depth advice, particularly when it comes to introducing new products and establishing new decision-making processes in their organisations.

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