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In addition to greenwashing, do we also need to consider riskwashing?

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DID YOU SEE...?

In this section we highlight any developments at FEIFA over the last month or so, which you may have missed, plus any potentially relevant and useful articles from our Associate Members and/or other appropriate sources. For articles in the Member's Hub, you will, of course, need your usual password.

FEIFA Masterclasses VoD (with CPD)

- Financial Planning Themes for 2021
- Is Your Advice Sustainable?

Members' Hub – ESG

- Ditch the tick-boxes: 10-step ESG guide for advisers
- Free ratings service offers clear insights into ESG risks
- Fidelity ESG Analyst Survey 2021

Webinar

- ESG - Greenwashing & Riskwashing

Media Content

- L&G ditches AIG and keeps Metlife on climate change exclusion list questionnaire
- The right to repair and its resulting investment opportunities

- Singapore takes major step to back climate investments
- Dunhill launches robo-adviser product for expats

Riskwashing, or getting into hot water without knowing it?

Lester Petch, Chief Executive Officer, TAM Europe Asset Management explains.

For those of you with knowledge of the term 'greenwashing' in relation to ESG, I am concerned at the trend I can see in another element of the marketing of investments that the regulators may be beginning to address.

Greenwashing is defined by the UK regulator as marketing that portrays an organisation's product, activities or policies as producing positive environmental outcomes when that is not the case.

As the CEO of a regulated investment operation, I, like many of you, am required to stay conservative in promotional activity, stay transparent as to risk and make communication 'fair and not misleading.'

The mantra of 'treating customers fairly' is engrained. Yet the consistent growth-oriented market of the past 5-10 years, I fear, has seen many investment managers push the risk envelope to seek/maintain extra performance for risk, and keep the upper hand on comparative performance against their peers.

In June 2019 we wrote an article discussing the potential for confusion under the title, 'Is Balanced really Balanced?' and nothing has changed, but new consumer duty discussions are striving for higher consumer protection in the retail market on clear communication.

So, let's look at some examples of what may be considered as leading to poor understanding, and may go against the new potential drive to 'clear and understandable communication.'

a) Is it a client who wishes to maintain a cautious and conservative outlook but is recommended to buy a 'cautious' model portfolio with 50-60% in equities?

b) Is it a client deemed to have a 'balanced' outlook but is buying into a 'balanced' portfolio that has 70% (or more) in exposure to equity?

c) Is it comparator investment service that lumps all products that have 40-80% in equity together as a fair comparison? Won't the 40-50% equity exposed manager always underperform the 80% equity manager in uptrends… not because he is bad, but because he has less exposure to risk?

Are these examples of perhaps not clear or understandable communication, the meaning in the terminology of the naming convention not meeting the risk profiling… Is this riskwashing?

Many will see it as only good marketing as clients will have been informed! That may have been the case, but do they understand if it has passed the best consumer outcome test, or what may shortly become the 'clear understandable communication' review?

I do not bring these to your attention because I think companies are unfair, deliberately misleading or bad, but that confusion and misunderstanding is easy and great care must be taken to ensure in any comparative study, that you are reviewing apples and apples and not apples and pears.

So, is greenwashing to be extended to riskwashing with a similar definition?

Could riskwashing be a term that applies to marketing that portrays an organisation's product, activities or policies as producing positive outcomes at a degree of risk when that is not the case?

In many cases I do not think that greenwashing, or indeed riskwashing, is overtly clear, but it does have a sense of 'can't be sure.' If it is not clear, then to me it may fall foul of 'Fair and Understandable Communication' (effectively an adjunct to 'Treating Customers Fairly') which will impinge on customers' ability to get good outcomes and be confident in their choices.

One thing is for sure, no-one will really worry until a bear market hits, when the 'riskwashers' (if there are any) may be in trouble.

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OneLife Luxembourg: life assurance's perspective for UK Partners and Clients following Brexit

The United Kingdom (UK) ceased its membership of the European Union (EU) on 1st January 2021. Since no specific agreement for continuing the cross-border EU 'Freedom to Provide Services' in insurance matters has been signed, let us take a look at the Brexit impacts on life assurance policies for partners and clients. We will make a distinction between UK residents and UK nationals abroad, so-called UK expatriates.

Context

The OneLife Company SA ("OneLife"), as an EU life assurance company based in Luxembourg, no longer benefits from the EU LPS regime into the UK and therefore falls now under the UK "contractual run-off" regime.

Implications on **Clients' contracts?**

Concerning **UK residents**, this means that all in force OneLife contracts as of 31 December 2020 remain unchanged after 1st January 2021. However, new applications from UK residents and their advisers are no longer permitted.

For **UK nationals abroad** (or UK residents contemplating a move abroad), **nothing changes** though. They can still benefit from the advantages of a Luxembourg life assurance contract, as it is after all an excellent wealth and tax planning instrument widely recognised in Europe and beyond as a tool to hold and transfer family wealth. This is, if compared to other structures like Trusts, Foundations or Investment Companies, a significant advantage as clients who opt for these solutions can easily obtain proper advice about the treatment of such investment vehicles in the jurisdiction where they are currently resident or the one in which they intend to reside after relocation:

- Portability:
  At OneLife, we can accompany our advisers and their clients in realising their relocation projects in the best way possible. Life assurance is after all an ideal, fully portable solution which can be tailor-made to individual situations.
- Tax planning:
  In comparison with a traditional portfolio a life assurance is as a long-term investment in almost all jurisdictions more beneficial in terms of applying taxes.
- Inheritance planning:
  Life assurance is obviously the ideal tool with its fully personalised beneficiary clause and highly flexible structure.

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