Financial Institutions' incorporation of environmental concerns: ability, willingness and sincerity: A research into the extent to which financial institutions incorporate non-financial, environmental considerations in their decisions, studying misalignment between environmental Corporate Social Responsibility and Corporate Political Activity in the context of the EU Taxonomy for Sustainable Activities.

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1. Introduction

The urgency of the climate crisis is in no need of explanation. Meeting the goals of the Paris Climate Agreement, if still possible at all, will mean a profound transformation of all facets of society and require substantial investments.[1] The European Commission has estimated that, for the years 2020-2030 alone, annual investments of Euro 379 billion are needed to align economic activities in the European Union with the goals of the Paris Climate Agreement.[2]

Investments of this magnitude are unattainable without the involvement of institutional investors.[3] It is estimated that institutional investors have about Dollar 280 trillion in assets under their control in 2021.[4] There is, however, still a major discrepancy between this societal necessity and actual investment decisions by the world's leading financial institutions. In the years 2016-2020, after the signing of the Paris Climate Agreement, the 60 largest banks alone still had invested Dollar 4,6 trillion in fossil fuel projects.[5] Last year, the International Renewable Energy Agency conducted research on fossil fuel investments of financial institutions (covering almost Dollar 75 billion in assets under management) and found that those companies had invested 'only' Dollar 300 billion in renewable energy projects.[6] The picture therefore is clear: there is a major discrepancy between the societally desirable allocation of capital and the actual allocation of capital.

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[1] The general goal of the Paris Climate Agreement is limit global warming to a maximum of two degrees Celsius, see: United Nations Climate Change, 'The Paris Agreement', last visited July 27 2022, https://unfccc.int/process-and-meetings/the-paris-agreement/the-paris-agreement; the EU climate entail 55% reduction of greenhouse gasses in 2030, as compared to 1990, and full climate neutrality by 2050, see: Europese Commissie, 'Klimaatdoelstellingsplan 2030', last visited July 27 2022, https://ec.europa.eu/clima/eu-action/european-green-deal/2030-climate-target-plan_nl.

[2] Carlin and Vinois (eds.), *Making the energy transition a European success. Tackling the democratic, innovation, financing and social challenges of the Energy Union* (September 2017) Institut Delors, p. 100.

[3] See for example: Ernst & Young, 'How sustainable finance can help decarbonize the real economy', last visited 27 July 2022, https://www.ey.com/en_id/sustainability-financial-services/how-sustainable-finance-can-help-decarbonize-the-real-economy; institutional investors: inancial institutions that invest on behalf of (corporate) clients, see: Investopedia, 'Institutional Investor', last visited July 27 2022, https://www.investopedia.com/terms/i/institutionalinvestor.asp;

[4] Banks have about Dollar 180 Trillion of assets under their control, see: Statista, 'Assets of banks worldwide 2002-2020', last visited July 27 2022, https://www.statista.com/statistics/421215/banks-assets-globally/; asset managers and insurance companies have about Dollar 100 Trillion under their control, see: Boston Consulting Group, *Global Asset Management 2021. The 100 Trillion Dollar Machine* (July 2021), p. 4.

[5] Rainforest Action Network, BankTrack, Indigenous Environmental Network, Oil Change International, Reclaim Finance, Sierra Club and Urgewald*, Banking on climate chaos. Fossil fuel finance report 2022* (2022), p.2.

[6] International Renewable Energy Agency, *Renewable Energy Finance: Institutional Capital.* Renewable Energy Finance Brief 02 (January 2020), p.4.

To facilitate this reallocation of capital, political involvement is indispensable. The nature of the policy involvement necessary is dependent on the ability and genuine willingness of financial institutions to incorporate non-financial considerations in their decision making. Put simply, if financial institutions are genuinely concerned about the environment, it will suffice to develop coordinative policy to create mutual understanding and clarity about the exact definition of 'sustainability', aligned with the Paris Climate Agreements.[7] On the other hand, if financial institutions are not able to look beyond purely financial considerations, it may be required to developed legally binding policy, prescribing specific investment decisions.[8] This thesis aims to establish to what extent financial institutions in the European Union incorporate environmentally sustainable considerations in their decision-making and identify what drives their decision to do so (or not).

To answer the research question, I will study the concept of CSR-CPA-misalignment of financial institutions regarding the EU Taxonomy for Sustainable Activities, a new European piece of legislation that sets technical criteria that determine what investments may and may not be called (environmentally) sustainable.[9] I will extensively elaborate on this concept in the remainder of this research, but CSR-CPA misalignment basically entails the discrepancy between publicly expressed sustainability preferences (Corporate Social Responsibility: CSR) of companies and their lobbying behaviour (Corporate Political Activity: CPA). The concept of CSR-CPA misalignment is founded in Political Corporate Social Responsibility (PCSR) - literature, that studies the increasingly politically important role of companies in society. This misalignment could be a good way to analyse the extent to which financial institutions are able to incorporate non-financial considerations. If financial institutions are genuine in their sustainable ambitions and their sustainable finance propositions, they will not try to weaken sustainable finance regulation through CPA. Put simply, studying this misalignment constitutes a 'practise-what-you-preach'-approach.

The policy process of the EU Taxonomy for Sustainable Activities is well-suited to answer the research question. As of 2022, financial institutions will have to report on the

[7] Pacces, 'Will the EU Taxonomy foster sustainable corporate governance?', in: *Sustainability* 13, no. 21 (2021) 13, p. 18.
[8] Dziwok and Jäger, 'A classification of different approaches to green finance and green monetary policy', in: *Sustainability* 13, no. 21 (2021) p. 8.
[9] European Commission, EU Taxonomy for sustainable activities, last visited July 27 2022, https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/eu-taxonomy-sustainable-activities_en.

Taxonomy-alignment of their investment portfolios. That is, to what extent their investments can be considered sustainable according to the definition of the Taxonomy regulation.[10] It is the first taxonomy for sustainable economic activities of its kind and will greatly affect the financial landscape.[11] Its implementation means that financial institutions can be held more strictly accountable to their sustainable pledges and that investment activities of financial institutions can be compared in terms of their environmental performance. It therefore comes to no surprise that the Taxonomy, before it was officially published in June 2020, was heavily lobbied by the financial sector: not so much by the individual financial institutions, but by their business associations, that are the main CPA-actors in European policy.[12] Financial industry business associations have been active mainly in the years 2018, as the European Commission opened the first consultation on the future Taxonomy for Sustainable Activities, until 2020, as the Taxonomy was formally adopted.[13]

Institutional investors, at which the EU Taxonomy for Sustainable Activities is targeted, will be the focal point of my research. Generally, institutional investors can be divided into three categories: banks, insurance companies and asset managers.[14] For each of these types of financial institutions, I will focus on the 50 largest companies (with their size being measured in total assets; see the appendix). I choose to focus only on the biggest financial institutions, as they are the most important players in the grand-scale reallocation of capital to environmentally sustainable activities. I will study their individual CSR-preferences and focus on their respective business associations to analyse their CPA in the context of the EU Taxonomy. As the Taxonomy for Sustainable Activities is aimed at companies active in the European Union, I will focus on the 50 largest insurance companies

[10] Article 8 of the Taxonomy regulation directly refers to the European Directive 2014/95, that gives mandatory instructions concerning financial institutions' reporting on non-financial information, see: European Commission, Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2099 and: European Commission, Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014, amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups; Nordea, 'A first look at companies' EU Taxonomy Reporting, last visited 27 July 2022, https://www.nordea.com/en/news/a-first-look-at-companies-eu-taxonomy-reporting.
[11] European Commission, 'Questions and Answers: Taxonomy Climate Delegated Act and Amendments to Delegated Acts on fiduciary duties, investment and insurance advice', last visited 27 July 2022, https://ec.europa.eu/commission/presscorner/detail/cs/qanda_21_1805.
[12] InfluenceMap, '*The EU's Sustainable Finance Taxonomy. An analysis of how business has sought to influence this key EY sustainable finance policy*' (December 2019), p. 2.
[13] InfluenceMap, '*The EU's Sustainable Finance Taxonomy*', p. 7.
[14] Investopedia, 'Institutional Investor', last visited 27 July 2022.

and banks active in the EU. This distinction is not made for asset managers, as major asset managers are not restricted to certain geographical areas, considering the global nature of their operations.

The research question is grounded in a growing body of literature that studies the increasingly important role of financial institutions in societal transformations, that I will refer to as Corporate Political Finance literature. One of the lacunae in this literature, is that it has not established sufficient outcome variables by which the non-financial concerns of financial institutions can be properly assessed (incorporation of environmental sustainability concerns is hard to assess, for example, if financial institutions do not have to report on the environmental sustainability of their investments). The incorporation of a new outcome variable CSR-CPA misalignment, to assess hypotheses derived from Corporate Political Finance, is one of the main scientific contributions of this thesis.

In the literature review, I will discuss different schools in Corporate Political Finance on the extent to which financial institutions are able to incorporate non-financial considerations in their decisions. After that, I will briefly discuss PCSR-literature, the relevance of the concept of CSR-CPA misalignment and its applicability as an outcome variable to answer hypotheses derived from Corporate Political Finance literature. Based on the discussion of the literature, I will formulate four hypotheses that can be tested by researching CSR-CPA misalignment in the policy process of the EU Taxonomy for Sustainable Activities. For each hypothesis, I will also give a description of the evidence I expect to find in the empirical section of the thesis. I will then discuss the policy discussion regarding the establishment of the EU Taxonomy for Sustainable Activities, in which I will identify the most important business associations involved, as well as the focal points of the policy debate. From the analysis of this policy debate, I will derive an operationalisation of CPA. Likewise, I will pay attention to the operationalisation of CSR in the context of sustainable finance and the EU Taxonomy.

One of the empirical findings is that there is a discrepancy between publicly expressed CSR-preferences of companies and the CPA-engagement of their business associations. The confirmation of the existence of CSR-CPA misalignment is in line with existing literature on this subject, but it has not yet been confirmed for financial institutions, let alone in the specific context of the EU Taxonomy for Sustainable Activities. Moreover,

the introduction of business associations in the study of CSR-CPA-misalignment constitutes a conceptual contribution to PCSR-literature, that has so far only focused on individual CPA.

Interestingly, there is a limited number of financial institutions that have clearly deviated from the positions taken by their business associations and have consequently aligned their CSR with their CPA. These financial institutions seem to be able to 'practise what they preach' and (partially) incorporate environmental sustainability preferences in their decisions. In a Most Similar Systems Design (MSSD) – approach, I will compare banks, insurance companies and asset managers with different degrees of CSR-CPA misalignment. I will compare them on ownership structure, the nature of their business activities, their perception of climate change as a financial risk, their fossil fuel and renewably energy investments and home country. Based on Corporate Political Finance literature, I expect (a combination or selection of) these corporate characteristics to account for the observed variance in CSR-CPA misalignment among financial institutions.

Based on this MSSD-research, I will empirically demonstrate that CSR-CPA misalignment is an effective outcome variable to study a financial institution's ability to incorporate non-financial considerations in its decisions, at least for the study of banks and insurance companies. Based on the company profiles, I will derive conclusions about the financial institutions' ability to deviate from their financial interests in the context of the EU Taxonomy. This empirical exercise will show that this ability is directly related to the degree of CSR-CPA misalignment.

Secondly, this MSSD-approach will be the main input to test several hypotheses derived from Corporate Political Finance literature. Basically, I will examine whether financial institutions are inherently unable to incorporate non-financial concerns due to intrinsic characteristics of the financial sector; whether they are willing to do so (in response to their clients and/or their owners), but currently unable because financial institutions cannot compete on non-financial parameters; or whether financial institutions are generally willing to embrace non-financial concerns in their decisions, in response to society at large.

Overall, it is unfortunately found that a substantial majority of the financial institutions is not able to incorporate non-financial considerations in their decisions. This inability applies universally to asset managers. However, there are interesting conclusions to be derived from the study of those banks and insurance that do express an ability to incorporate environmental concerns. It is found that banks and (especially) insurance

companies are to a certain extent responsive to their clients and have lower degrees of CSR-CPA misalignment. There seems to be limited empirical evidence that financial institutions do respond to societal demands in general.

Societally, this research will have implications for regulatory choices concerning the reform of the European financial system in light of the climate crisis. If there is better knowledge available if, to what extent and why institutional investors embrace non-financial considerations in their decision-making, policy makers can mould their legal instruments better to the dynamic reality of the financial sector. Moreover, in a society in which financial institutions are becoming increasingly important, these findings are useful to fuel a discussion about the extent to which this development is desirable and how societal expectations can be synchronised with financial institutions' actions.

2. Literature review

In this section, I will firstly extensively discuss the literature in which this research is grounded. Academically, there is growing interest for the role of financial actors as agents of societal change; and the conditions under which financial institutions are able to incorporate non-financial considerations in their decisions. I have identified three schools regarding this research question, to which I jointly refer as literature on Corporate Political Finance. From the discussion on Corporate Political Finance, I will derive my main hypotheses.

Before the definite formulation of the hypotheses, I will reflect on PCSR-literature, that studies how companies are becoming increasingly 'politically' important as rule-making institutions by setting standards that have a profound impact on society and go further than legal requirements.[15] PCSR comprises normative literature that studies the conditions under which this 'political' role of companies is either beneficial or detrimental to society.[16] In this context, CPA can be conducive to societal welfare if it consistently aligned with companies' publicly expressed CSR-policies. I will elaborate on this concept, explain how it can be empirically studied and discuss the synarchy with Corporate Political Finance literature.

[15] Frynas and Stephens, 'Political Corporate Social Responsibility: reviewing theories and setting new agendas', in: *International Journal of Management Review* 17, no. 4 (2015), p. 485-486.
[16] Scherer et al., 'Managing for Political Corporate Social Responsibility: New Challenges and Directions for PCSR 2.0', in: *Journal of Management Studies* 53, no. 3 (2016), p. 274.

2.1. Corporate Political Finance

Although Corporate Political Finance is not one clearly-delineated school of literature, I have identified an interesting similarity between three academic schools, that all aim to uncover how the societal role of financial institutions develops and how society can best respond to this development. The extent to which financial institutions are profoundly able to incorporate non-financial considerations in their decision-making, is an important research question in this body of literature. The answer to this question namely decides what type of reforms of the financial sector are required to align the actions of the financial sector with societal expectations.

From each academic school, I have derived hypotheses regarding the expected relationship between financial institutions' characteristics and their level of CSR-CPA misalignment.

i. The monolithic approach to finance, firstly, has an essentialist perception of the financial sector and argues that financial institutions are intrinsically unable to implement non-financial considerations in their decision-making.

Apart from this monolithic approach to finance, there are two 'pluralistic' schools, that argue that financial institutions are in fact able to look beyond purely financial rationales (albeit under certain conditions and with certain restraints).

ii. The financial-logic school argues that financial institutions are responsive to society and that their ability to incorporate non-financial considerations depends on the extent to which non-financial factors are valued by the society in which the financial institution operates.

iii. The principal-agent approach to finance argues that the beneficiaries of financial institutions (clients or owners) want these institutions to align their investment to a greater extent with sustainability considerations. However, financial institutions can limitedly respond to these demands as there are currently no standards in place by

which financial institutions can effectively compete, apart from return-on-investment.

I will now discuss these academic schools more in-depth.

2.1.1. Monolithic approach to finance

One of the theoretical starting points in this school is that financial institutions are inherently profit-seeking agents that are only driven by profit maximation.[17] Applied to sustainable finance policies, this means that incorporation of non-financial considerations, if seemingly present, does not derive from genuine concerns about the environment, but can simply be explained by pecuniary incentives. The short-term view of financial institutions and the focus on return-on-investment are 'unassailable' due to the very structure of the global financial system.[18]

The authors Dafermos, Gabor and Michell have identified so-called 'institutional supercycles', that apply to the economies of the western world. Very generally speaking, these supercycles constitute the basic architecture of the global capitalist system and entail the checks and balances society has laid upon the capitalist actors. The financial sector, more than any 'real-economy' sector is well-equipped to evade political processes that try to restrict the externalities of its profit-seeking behaviour, because it is hardly in any way bound by geographical borders. The financial sector therefore deserves specific attention in the study of these institutional supercycles, of which there have been two, with a third one on the way (which I will come back to shortly).

Every institutional supercycle has a so-called 'thwarting mechanism' in place. These are the political and institutional configurations to mitigate the 'endogenous instability' of financialization. Put simply, a thwarting mechanism constitutes the regulatory institutions and practices in place to align the investment decisions of the financial sector with societal expectations. Recall, however, that financial institutions are profit-seeking agents. They are adaptive and will continuously attempt to undermine the thwarting mechanisms in place to

[17] Dafermos, Gabor and Michell, 'The Wall Street Consensus in pandemic times: what does it mean for climate-aligned development?', in: *Canadian Journal of Development Studies* 42, ns. 1-2 (2021), p. 240.
[18] Esposito, Gatti and Mastromatteo, 'Sustainable finance, the good, the bad and the ugly: a critical assessment of the EU institutional framework for the green transition', in: *Vita e Pensiero* no. 4 (2019), p. 17.

improve their financial performance. Furthermore, as the economy develops, there comes a point at which the institutional supercycle and the thwarting mechanisms embedded in it, no longer fit the actual structure of the economy and the financial institutions. The thwarting mechanism will then become obsolete and profit-seeking financial institutions will increasingly impose the externalities of their investment decisions upon society. This leads to a crisis and the foundation of a new institutional supercycle.[19]

According to Dafermos, Gabor and Michell, we are currently in the transition from the second to the third institutional supercycle. The first institutional supercycle, that emerged after the Second World War, structured industrial capitalism. As the western economies grew, consumers were increasingly able to save money and more money became available for investment purposes. Institutional investors, consequently, became more important (especially as restrictions on free movement of capital gradually disappeared) and a new institutional supercycle, structuring financial globalisation emerged. Defarmos, Gabor and Michell state that this supercycle is currently in crisis; the western economic system provides no structural new drivers of economic growth, but evolving financialization has created a system in which the accumulation of financial assets has become the main source of economic development. Moreover, and most importantly, the global economy faces a new fundamental challenge in the form of the climate crisis, for the regulation of which the financial globalisation supercycle is not well-equipped. Dafermos, Gabor and Michell predict that the next supercycle, which will have to strike a better balance between the interests of those than can and those than cannot participate in a heavily financialized economy, will be conditioned to a great extent on the climate crisis.[20]

The EU Taxonomy for Sustainable Activities could be conceived as one of the first exponents of a newly emerging institutional supercycle, that attempts to align decision-making of financial institutions better with the societal expectations concerning environmentally sustainable investment. However, according to the monolithic perception of financial institutions' incentives, the EU Taxonomy will never convincingly function as a policy instrument to voluntarily revert the investment decisions of financial institutions,

[19] Defarmos, Gabor and Michell, 'The Wall Street Consensus in Pandemic times', p. 240
[20] Dafermos and Gabor, 'Institutional supercycles', p. 7-18.

because the profit-seeking tendencies of financial institutions are too strong.[21] At best, financial institutions could incorporate the requirements of the Taxonomy in their decision-making, but it will only create the conditions for 'systemic and subsidized' greenwashing.[22] That is: financial institutions will adapt their investments partially to the Taxonomy, but only to the very minimal extent. Consequently, the Taxonomy will have limited substantial effect. The lobbying efforts of the financial industry's business associations can be analysed as the first attempts of financial institutions to adapt to, evade and undermine the new thwarting mechanisms currently being erected in the third institutional supercycle.

2.1.2. Pluralistic approach to finance

This monolithic approach to finance is essentialist and has a strong theoretical foundation. It is based on strong assumptions about the nature of financial institutions. The conclusion that financial institutions are intrinsically unable to incorporate non-financial considerations in their decisions, is logically derived from these assumptions, but not empirically tested. Monolithic literature fails to construct outcome variables by which it can empirically test whether those assumptions do actually justify the main conclusion that financial institutions can only take on a purely financial perspective. Alongside this monolithic approach, consequently, a body of literature has emerged that attempts to analyse empirically to what extent financial institutions are able to embrace non-financial considerations in their decision-making.

2.1.2.1. Financial Logic

Firstly, a rather abstract scholarly approach focuses on the overall presence of 'financial logic' within society, that is: the extent to which society at large values non-financial considerations as opposed to solely pecuniary motives. A general prevalence of non-financial logic in society results in a financial sector that embraces its societal responsibility

[21] Och, 'Sustainable Finance and the EU Taxonomy Regulation – Hype or Hope?' *Jan Ronse Institute for Company and Financial Law. Working Paper Series*, no. 2020/05 (November 2020), p. 9.
[22] Gabor, 'Critical macro-finance: A theoretical lens' in: *Finance and Society* 6, no. 1 (2020), p. 52.

to a greater extent and makes decisions accordingly.[23] The general idea is that a significant presence of non-financial logic within society more or less naturally translates into more sustainable investment decisions by the financial sector. Applied to the EU Taxonomy, this means that a more coordinative Taxonomy could suffice to align the financial industry's actions with societal expectations, if there is low prevalence of financial logic into society. On the other hand, high prevalence of financial logic in society requires a presriptive approach. Put simply, this academic school argues that financial institutions can, more or less autonomously, embrace non-financial considerations, merely because the of the societal context of which they are a part.

Whereas the monolithic approach to corporate finance holds an essentialist view of financial institutions, that is independent of contextual factors, the financial logic school formulates societal conditions under which financial institutions may or may not be able to act profoundly sustainable. The degree of financial logic in society is operationalised by the financial sector employment as a share of total employment.[24] The degree of non-financial logic can be derived from societal factors, such as the role of labour unions, the influence of religious organisations and the importance of charitable organisations.[25] In this school of literature, scholars may look at SDG-alignment of investment funds as an outcome variable to empirically determine the extent to which financial institutions embrace non-financial considerations, but a major drawback is that SDG-alignment is an rather undefined concept, for the reporting on which one has to rely to a great extent on self-reporting by financial institutions.[26] Financial logic-literature may also examine the extent to which financial institutions collaborate with non-financial organisations such as NGOs and labour unions, as outcome variables that signal the degree of societal involvement of financial institutions.[27] However, these outcomes variable provide relatively limited information on actual balancing of financial institutions between financial and non-financial considerations.

[23]Ahlström and Monciardini, 'The regulatory dynamics of sustainable finance: paradoxical success and limitations of EU Reforms in: *Journal of Business Ethics* 177 (2022), p. 195-196.
[24] Yan, Ferraro and Almandoz, 'The Rise of Socially Responsible Investment Funds: The Paradoxical Role of the Financial Logic' in: *Administrative Science Quarterly* 64, no. 2 (2019), p. 479.
[25] Idem, p. 481.
[26] Capital Monitor, 'How banks are reporting on the SDGs', last modified February 21 2022, https://capitalmonitor.ai/institution/banks/how-banks-are-reporting-on-the-sdgs/.
[27] Yan, 'The Rise of Socially Responsible Investment Funds', p. 469.

This academic school is to be applauded for its serious attempt to empirically analyse the extent to which non-financial considerations can play a role in financial institutions' decision-making. In doing so, these scholars have opened the discussion about a more nuanced perception of the financial sector and have put forward an argument that it is in fact possible for financial institutions to involve the society at large in their decisions. In its focus on societal factors, this literature is able to explain differences between financial institutions from different countries, but it is not well-applicable to study individual financial institutions, nor analyse different institutions with their main seat in the same country.

2.1.2.2. Principal-agent approach

The next school of literature, which I call the 'principal-agent'-school, builds further on the notion embedded in the financial logic-literature that companies can embrace non-financial considerations and that the extent to which they do so is dependent on contextual factors. However, the 'principal-agent'-school analyses the role of the direct beneficiaries, that is clients and shareholders, of financial institutions to explain variety in the prevalence of non-financial investment decisions by financial institutions.[28] In doing so, the principal-agent school argues that financial institutions experience accountability to their beneficiaries, perhaps more than to society at large. This school of literature adds an important perspective, namely that a principal-agent problem creates difficulties for financial institutions to translate the preferences of their beneficiaries into actual investment decisions. I will now elaborate on this dynamic.

It has been observed in literature, that the direct beneficiaries of financial institutions have stronger non-financial preferences than the investment decisions of these institutions suggests. It has been found that investors, generally speaking, are willing to give up financial return to improve sustainability, particularly environmental sustainability.[29] At the same time, a principal-agent-problem makes it difficult for these non-financial

[28] Pacces, 'Sustainable Corporate Governance: The Role of the Law', *ECGI Working Paper Series* 550/2020 (October 2020), p. 9.
[29] See for example: Delsen and Lehr, 'Value matters or values matter? An analysis of heterogeneity in preferences for sustainable investment', in: *Journal of Sustainable Finance and Investment* 9, no. 3(2019), p. 240 and: https://www.tandfonline.com/doi/pdf/10.1080/20430795.2019.1608709 and: Lagerkvist et al, 'Preferences for sustainable and responsible equity funds – A choice experiment with Swedish private investors', in: *Journal of Behavioral and Experimental Finance* 28 (2020), p. 1.

preferences to be translated into investment decisions. Financial institutions have not been able to properly compete with each other on the basis of the sustainability of their investments (exactly because, at least until very recently, there was no uniform classification system for the environmental sustainability of financial institutions' investments).[30] Of course, financial institutions have climate policies in place and do (selectively) report on the sustainability performance of their investments, but this reporting is relatively meaningless if there is no objective and uniform definition of the 'sustainability' of investments. As financial institutions can only compete on return-on-investment, they are effectively forced to align their investments with financial motives only.

The EU Taxonomy could be an excellent instrument to overcome this principal-agent problem between beneficiaries and the financial institutions themselves. If beneficiaries can effectively compare financial institutions based on the environmental impact of their investments, they will redirect their capital to those financial institutions, that perform best in this regard.[31]

In conclusion, the principal-agent schools confirms the idea that financial institutions are genuinely willing to incorporate non-financial considerations in their investment decisions. The ability of financial institutions to respond to the non-financial preferences of their beneficiaries, on the other hand, is restricted by the limitations of competition based on environmental sustainability. This theory implies that the support of financial institutions for the EU Taxonomy will depend on the exact composition of their beneficiaries and the extent to which financial institutions feel responsive to their beneficiaries. Overall, a diverse picture emerges, but profound concern by financial institutions regarding environmental sustainability is definitely possible.

Recapitulating, the monolithic approach, financial logic-theory and the principal-agent school all have different ideas about financial institutions' ability to incorporate environmental concerns in their decision. All these schools face certain difficulties in the empirical foundation of their theories.

[30] Pacces, 'Will the EU taxonomy regulation foster sustainable corporate governance?, p. 16.
[31] Idem, p. 15.

i. The monolithic approach has a strong conceptual and theoretical foundation, but scholars in these fields have made limited attempt to empirically support their theories.

ii. The financial logic school struggles with the establishment of an outcome variable by which it can accurately assess the exact prevalence of non-financial preferences of financial institutions, as it is difficult to estimate the extent to which these preferences are converted into actual investment decisions.

iii. As for the principal-agent school, it is successful in establishing the presence of non-financial preferences of beneficiaries of financial institutions, but it does not empirically assess how these preferences affect corporate decision-making.

In this thesis, therefore, I will reconstruct a new, qualitative outcome variable that is able to (partially) overcome these deficiencies. This variable is derived from literature on Political Corporate Social Responsibility (PCSR).

2.2. Political Corporate Social Responsibility (PCSR)

PCSR studies the increasingly important role of businesses in societies. In that sense, it is closely related to the literature on Corporate Political Finance, but PCSR scholarship focuses not on the increasing impact of companies on society in general, but on the *political* role companies are increasingly able to play. That is: PCSR pays specific attention to the role of companies as rule makers in society, in the sense that companies can increasingly impose rules on society, that have no political or legal foundation per se.[32] Illuminating example are recent actions by big American corporations, demanding that their law firms have an ethnically diverse staff; and manufacturers that collaborate and impose labour conditions

[32] Frynas and Stephens, 'Political Corporate Social Responsibility', p. 485-486.

requirements upon their suppliers in developing countries.[33] Likewise, financial institutions, by the standards they set for their investment decisions, have an impact on the architecture of the real-life economy and basically decide what activities are and are not allowed. This research sheds light on an explicit blind spot in PCSR-literature, by applying concepts derived from PCSR to the financial industry. This industry has so far been largely overlooked by PCSR-literature.[34]

Briefly said, PCSR studies companies as 'quasi-governmental institutions'.[35] In recent years, CSR has become increasingly political. Not only in the sense that company's CSR has gradually incorporated political concerns (such as sustainability, human rights protection and labour conditions), but also in the sense, that CSR has become more and more subjected to government policy (the Taxonomy is a fine example of this, but also think about the new European directive on Corporate Sustainable Due Diligence, that will impose strict rules on multinational corporations active in the EU on how they should monitor and respond to human rights violations in their supply chains outside the EU).[36]

Literature on PCSR has an explicit normative component. As it observes that corporations are become increasingly important politically, it also formulates conditions under which this political role is legitimate. That is to a great extent depend on whether companies are able to incorporate broader societal considerations in their decision-making.[37] One of conditions for the legitimacy of the political role of corporations is CSR-CPA alignment, which very succinctly entails that lobbying activities of corporations are in line with their publicly expressed ideas about their societal responsibility. The concept of CSR-CPA misalignment in the context of PCSR-literature has been developed by Lock and Seele.[38] Considering the new political role of corporations, Lock and Seele argue that CPA can be

[33] See for example: Novartis, ,' Novartis launches new Preferred Firm Program for legal services', published February 12 2020, https://www.novartis.com/news/novartis-launches-new-preferred-firm-program-legal-services and: Internationaal Maatschappelijk Verantwoord Ondernemen, 'Kleding en textiel', last visited July 27 2022, https://www.imvoconvenanten.nl/nl/kleding-en-textiel/over-convenant

[34] Scherer et al, 'Managing for Political Corporate Social Responsibility', p. 286.

[35] Schrempf-Stirling, 'State Power: Rethinking the Role of the State in Political Corporate Social Responsibility', in: *Journal of Business Ethics* 150, no. 1 (2018), p. 1.

[36] Frynas and Stephens, ,Political Corporate Social Responsibility, p. 485; European Commission, 'Corporate sustainability due diligence', last visited July 27 2022, https://ec.europa.eu/info/business-economy-euro/doing-business-eu/corporate-sustainability-due-diligence_en.

[37] Scherer et al, 'Managing for Political Corporate Social Responsibility', p. 274.

[38] Lock and Seele, 'Deliberative Lobbying'' Toward a Noncontradiction of Corporate Political Activities and Corporate Social Responsibility' in: *Journal of Management Theory* 25, no. 4 (2016), p. 415.

beneficial to society if it is consistently aligned with corporation's publicly expressed CSR-preferences. If CPA is aligned with CSR-preferences of the corporation, CPA could be constructive for the formulation of societally desirable and effective rules, that optimally incorporate the technical expertise and practical experience of corporations. However, Lock and Seele also argue that CSR-CPA misalignment must result in exclusion of corporations from political processes, as their contribution then cannot be expected to be stemming from genuine concern for societal wellbeing.[39]

For clarity, Corporate Political Activity is a broad concept that involves all corporate activity 'intended to influence governmental policy or processes'.[40] In this sense, outright bribery falls within scope of CPA, as well as legitimate and constructive information provision to policy makers. The concept of CPA does not cover public campaigns and other corporate attempts to influence public opinion. CPA usually refers to 'classic' lobby activities, in which corporate representatives attempt to provide policy makers with different kinds of information in order to ensure that upcoming rules and regulations accommodate their economic operations and revenue model.[41] A lot of lobbying activities, by their very nature, occur behind the screen. Consequently, there are methodological difficulties in CPA-research. In the study of CSR-CPA misalignment, however, the focus is not so much on the exact description of the CPA in terms of actions, but more on a general description of the positions put forward and the extent to which that position is aligned with publicly expressed CSR-policies. [42] These positions can be easily derived from publicly accessible consultations, that involve the formal submission of written documents in which corporate and private parties provide their feedback on draft legislation. Besides, companies send in formal written letters to policy actors or publish policy memos, that are well-accessible and well-suited for identification of their exact policy position.

CSR, then, can be conceptualised as the corporate strategies and regulations, as well as the publicly expressed views, regarding the societal responsibility of companies. Generally speaking, Corporate Social Responsibility will, at least superficially, be aligned with

[39] Lock and Seele, 'Deliberative Lobbying', p. 419-420.
[40] Den Hond et al, 'Playing on two chessboard: reputation effects between corporate social responsibility (CSR) and Corporate Political Activity (CPA) in: *Journal of Management Studies* 51, no. 5 (2014), p. 796.
[41] Ibidem.
[42] Lock and Seele, 'Deliberative Lobbying', p. 419-420.

the societal expectations regarding that responsibility.[43] CSR-CPA misalignment entails that companies lobby for policy in a way that does not reflect the perception of their societal responsibility they publicly proclaim and implement in corporate policy.[44] If companies publicly express environmental concerns, but at the same time actively oppose regulation to that effect, this could be a strong signal that their sustainability preferences are not sincere.

As mentioned, Corporate Political Finance studies encounter the problem that collecting empirical data regarding investment decisions and the prevalence of environmental concerns within financial institutions, is difficult. Studying CPA-CSR misalignment in the context of the EU Taxonomy therefore could be very useful as an outcome variable. Although CPA may not tell us anything about the actual investment decisions of financial institutions, the results from CPA-CSR misalignment research concerning the EU Taxonomy, can be very telling about the extent to which financial institutions are genuinely willing to incorporate environmentally sustainable considerations in their financial decisions.

2.3. Causal relationships and hypotheses

In this section, I will formulate four hypotheses on the causal mechanisms explaining variance in CSR-CPA misalignment among financial institutions in the policy process of the EU Taxonomy. I will discuss what the assumptions of the Corporate Political Finance literature mean within the context of the EU Taxonomy and what empirical evidence I expect to find in light of the different hypotheses.

2.3.1. Hypothesis 1: monolithic approach to Finance.

Seemingly, with its cynical perception of the financial sector as inherently short-term and profit-seeking, it is difficult for the monolithic approach to finance to explain that a number of financial institutions, at least to a certain degree, appear be willing to accept stricter financial regulation, that takes into account the societal dimension of the financial sector. However, this finding could still well-compatible with the monolithic approach to finance.

[43] Den Hond et a, 'Playing on two chessboards', p. 794.
[44] Lock and Seele, 'Deliberative Lobbying', p. 419.

Firstly, it might be that certain financial institutions engage in environmentally sustainable CPA because they think positive contribution to the policy process is a way to prevent more stringent regulation.[45] Researching this would require very detailed disclosure of the exact considerations of individual financial institutions, that they would not normally be very eager to share and therefore falls outside the scope of this research.

Secondly, support for strict sustainable finance regulation could stem not from environmental considerations per se, but from perceiving climate change as a financial risk to their investments. This very much depends on the exact nature of the activities of a financial institution. Besides, the perception of climate change as a financial risk also depends on the financial institution's assessment of the impact of climate change in general. If companies perceive climate change as a financial risk for their operations, they incorporate climate change in their risk assessment and will report on these risks in their annual reports.

A third reason why financial institutions could support stringent regulation regarding the EU Taxonomy, is that they have an investment portfolio that is already relatively environmentally sustainable compared to the portfolio of their competitors. Financial disclosure under a stringent Taxonomy regulation would therefore be competitively favourable to them. These companies would therefore support more stringent sustainability criteria within the Taxonomy. Likewise, the extent of CSR-CPA misalignment could also be negatively associated with the percentage of clearly environmentally unsustainable investments of the investment portfolio of financial institutions. Put briefly, variance in CSR-CPA misalignment could still be explained by exploring solely financial incentives, even if some financial corporations are seemingly better able to incorporate non-financial considerations than others. From this observation I derive hypothesis 1.

H1: Variance in CSR-CPA misalignment among financial institutions is driven exclusively by financial interests.

If this hypothesis holds, I expect that financial institutions with low levels of CSR-CPA misalignment perceive climate change as a financial risk to their operations, that financial

[45] Monciardini, 'The coalition of the unlikely driving the EU regulatory process of non-financial reporting' in: *Social and Environmental Accountability Journal* 36, no. 1 (2016), p. 82.

institutions generally support the EU Taxonomy if they have relatively environmentally sustainable investment portfolios (and vice versa) and that they support the establishment of a 'brown' taxonomy for environmentally unsustainable activities if they have relatively few investments in environmentally unsustainable activities. If analysis of a number of financial institutions leads to the conclusion that financial institutions are never profoundly able to support regulation that is misaligned with their direct financial interests, this will lead to the conclusion that financial institutions are indeed only driven by pure financial incentives.

2.3.2. Hypotheses 2 and 3: principal-agent approach

If it seems that financial institutions are able, at least to a certain extent, to engage in CPA that is opposed to their direct financial interests, this observation will provide credibility to the pluralistic approach to finance. Whereas the financial-logic school of Corporate Political Finance suggests that financial institutions experience a certain extent of accountability at large, the principal-agent school suggest that financial institutions experience accountability to their direct beneficiaries. The principal-agent school suggest that financial institutions with beneficiaries that are genuinely concerned about environmental sustainability, will support stricter Taxonomy regulation because this will enable them to effectively compete with other financial institutions on environmental sustainability performance.

There are different kinds of financial institutions with different kinds of direct beneficiaries. Generally speaking, banks and insurance companies, which are major institutional investors, will have beneficiaries that have stronger non-financial preferences. Almost everyone uses financial services of banks and insurance companies. Their clients, consequently, are representative of society at large. Combining the perspectives from financial logic and the principal-agent school, banks and insurance companies will feel more accountable to society at large, because they feel accountable to their direct beneficiaries. This mechanism may hold specifically for insurance companies, the clients of which have no profit-seeking incentives, but only seek reimbursement in case of incurred damage. From these observations I derive hypothesis 2:

H2: Variance in CSR-CPA misalignment among financial institutions depends on the nature of the financial services they offer

If this hypothesis holds, it will be expected that insurance companies and banks (and insurance companies more than banks) have lower degrees of CSR-CPA misalignment than asset managers (and that CSR-CPA misalignment signals the ability to deviate from direct financial interests). Importantly, the principal-agent approach predicts that, even if financial institutions have genuine concerns about environmental sustainability, they would have had limited opportunity to translate theses environmental concerns into investment decisions. Therefore, it is expected that there will be little to no correlation between the nature of the investment portfolios of the financial institutions and the extent of CSR-CPA misalignment of financial institutions regarding the EU Taxonomy.

If it is found that there is a no consistent patterns between the extent of CSR-CPA alignment and the nature of the investment portfolios of financial institutions and that financial institutions are able to engage in CPA that is misaligned from their direct financial interests, this will conclusively prove one of the main causal mechanisms embedded in principal-agent theory, namely that the non-financial preferences of the beneficiaries of financial institutions cannot be translated into investment decisions, although there may be genuine willingness among financial institutions to do so.

However, confirmation of hypothesis 2 would be of limited use to explain differences among financial institutions within the same financial subsector. It would still remain elusive, what exactly causes some financial institutions to be more profound in their support for environmentally sustainable ambitions. Generally speaking, financial institutions within the same subsector might have the same types of client, but not necessarily the same kind of owners. Building further on the notions of principal-agent theory, the ownership structure of financial institutions might be relevant to the degree of CSR-CPA misalignment as well. If financial institutions are mainly owned by other asset managers (not being activist asset managers with clear societal goals) or other financial institutions in general, this could be an indicator of a lower prevalence of financial preferences among a financial institution's beneficiaries, leading to higher CSR-CPA misalignment. Based on principal-agent theory, I therefore also formulate another hypothesis.

H3: the extent of CSR-CPA-misalignment is dependent on the share of institutional ownership of a financial institution

I will analyse for all companies how much of their shares are owned by their 10 biggest investors. If this share is consistently higher for financial institutions with a high degree of CSR-CPA misalignment, this will indicate that ownership structure may be relevant for financial institutions' ability to incorporate non-financial considerations in decision-making.

2.3.3. Hypothesis 4: financial logic

Financial logic literature argues that financial institutions are responsive not so much to clients, investors or owners, but to society at large. This means that financial institutions can, more or less independently, decide to incorporate non-financial considerations in their decision-making and that financial institutions based in countries with lower degrees of financial logic will be more likely to do so. This basically means that financial institutions will be able to support financial regulation that is opposed to their direct financial interests, but variance in CSR-CPA misalignment will depend on the home country of the financial institution, as signalled by the seat of the headquarters. From this perspective I derive hypothesis 4.

H4: variance in CSR-CPA misalignment among financial institutions is related to the prevalence of financial logic in the home country of the financial institutions

For the financial institutions in scope of this research, I will examine if or to what extent their CPA deviates from their direct financial interests. I will then investigate if there is a correlation perceivable between the financial sector employment in a country and the ability of financial institutions headquartered in that country, to incorporate non-financial considerations in their decisions. If the financial logic mechanism is confirmed, it will be found that countries home to financial institutions with low degrees of CSR-CPA misalignment in the policy process of the EU Taxonomy for Sustainable Activities will have relatively low employment in the financial sector.

3. Research design

In this section, I will elaborate on the conceptual framework and the operationalisation of the concepts, as well as guide the reader through the empirical steps taken to construct an answer to the research question. Firstly, I will discuss the policy debate regarding the EU Taxonomy for Sustainable Activities and the role of financial institutions, as well as their business associations, in this process. Based on the discussion of the policy debate, I will construct an operationalisation of CPA of financial institutions and business associations in the context of the EU Taxonomy.

The discussion of the policy debate will logically support the case selection and I will also explain the rationale behind the categorisation and selection of financial institutions with regards to the MSSD-approach. As this thesis focuses on CSR-CPA misalignment, I will also provide an operationalisation of financial institutions' CSR regarding environmental sustainability. Thirdly, I will discuss the data by which I will compare the different financial institutions in scope of the MSSD-approach.

3.1. Conceptual framework

Specifically interesting about the policy process regarding the EU Taxonomy, is that individual companies are not actively engaged in policy making, but let their interests be represented by different business associations.[46] The picture that will emerge, is one of financial institutions with ambitious climate statements, while their business associations lobby for weakening of the upcoming EU Taxonomy. In the case of the policy process of the EU Taxonomy, in which there is limited CPA-engagement of individual financial institutions, but significant CPA-engagement of business associations, incorporating business associations in the analysis is necessary to fully grasp the extent of CSR-CPA misalignment. If companies are very vocal in their public support for environmentally sustainable investment, but simultaneously turn a blind eye to their business associations engaging in CPA that is diametrically opposed to publicly expressed CSR-preferences, this could be a

[46] InfluenceMap, 'The EU's Sustainable Finance Taxonomy', p. 2.

strong signal that financial institutions' sustainable preferences do not have a foundation in genuine environmental concerns.

At the same time, as will be empirically demonstrated in the findings of this research, the emerging picture of the financial sector is not uniform. A limited number of financial institutions engages in CPA that is sometimes diametrically opposed to the CPA of their business associations. This can be derived from membership of sustainable finance business associations; and occurrences in which financial institutions have engaged in individual CPA that directly opposed the CPA of their business associations.

3.1.1. Policy debate

In the policy process of the EU Taxonomy, lobbying activities of the financial business associations have mainly revolved around the following points. I have identified these discussion points based on my own analysis of the policy debate, and I will provide all the supporting evidence in the empirical section of this research.

i. The scope of the application of the taxonomy: the first discussions concerning the establishment of a future taxonomy, revolved around the question whether the Taxonomy-classification had to apply to all investments of financial institutions, or only to the financial products that would have been marketed as sustainable. If the latter had been the case, financial institutions would not have had to report on the sustainability-alignment of their investments in general.

ii. *The technical criteria:* the classification of economic activities as environmentally sustainable depends on the exact technical criteria by which sustainability assessments are made. In the initial stage of the policy process, it was discussed whether these technical criteria had to be rigid and science-based, as opposed to flexible and relative to general market performance (that is, an economic activity is

considered sustainable if it performed relatively sustainably compared to the rest of the market).[47]

iii. *The 'brown' taxonomy:* the establishment of a 'brown' taxonomy for environmentally unsustainable activities, alongside the 'green taxonomy' for sustainable activities, would require financial institutions to report on the exact extent to which their investments were environmentally unsustainable. This was an ongoing discussion, but peaked in 2020, as the EU Platform on Sustainable Finance, an expert group advising the European Commission on sustainable finance regulation, requested market feedback concerning the establishment of such a taxonomy.[48]

iv. At the last stage of the policy process leading up to the formal adoption of the EU Taxonomy, the discussion centred around the exact technical screening criteria for the average carbon intensity of electricity production. The Technical Expert Group (TEG) that advised the European Commission on the establishment of an environmentally effective Taxonomy, had advised that only activities with an average carbon intensity of 100 gram CO2/Kwh could be deemed sustainable, in the sense that they could be considered aligned with the goals of the Paris Climate Agreement.[49] The European Commission, in its first draft of the Taxonomy regulation, had increased this threshold from 100 to 270 gram CO2/Kwh, so that the production of natural gas and nuclear energy could be considered sustainable under the taxonomy.[50]

[47] EUSurvey, 'Published results Taxonomy feedback first round climate change mitigation activities', last visited 27 July 2022, https://ec.europa.eu/eusurvey/publication/taxonomy-feedback-first-round-climate-change-mitigation-activities?surveylanguage=en.
[48] European Commission. Directorate-General for Financial Stability, Financial Services and Capital Markets Union, 'Consultation Document. Consultation on the Renewed Sustainable Finance Strategy' (April 8 2020), question 82, p. 30.
[49] EU Technical Expert Group on Sustainable Finance, '*Taxonomy Technical Report*' (June 2019), p. 33.
[50] European Commission, Delegated Regulation (EU) 2022/1214 of 9 March 2022 amending Delegated Regulation (EU) 2021/2139 as regards economic activities in certain energy sectors and Delegated Regulation (EU) 2021/2178 as regards specific public disclosures for those economic activities (Text with EEA relevance), section 4.29.

> Natural gas and nuclear energy are main suppliers of energy for many European countries (including France, which heavily depends on nuclear energy and Germany, that heavily depends on natural gas).[51] Exclusion of these energy sources in the EU Taxonomy would not only frame their energy mix as being environmentally unsustainable, it could also endanger the future financing of their energy supply (after all, financial institutions might refrain from investments in these sectors in the future). NGOs, other member states and green and left wing political parties, however, feared that the inclusion of natural gas and nuclear energy would seriously undermine the effectivity of the EU Taxonomy: not only would it facilitate continuous financing of nuclear energy and natural gas activities, it would also mean reduced competitiveness between financial institutions on sustainable parameters.[52] Simply said: sustainability-minded clients and companies could buy 'sustainable' financial products, while at the same time facilitating natural gas and nuclear energy investments. Overall, this policy debate basically revolved around the following question: will the EU Taxonomy serve political convenience, or environmental necessity?

Generally speaking, and I will elaborate on this point in the remainder of this thesis, the most important financial business associations in the European Union, all lobbied intensively for voluntary instead of mandatory application of the Taxonomy, market-relative instead of strict, science-based technical criteria, against the additional application of a 'brown' taxonomy and in favour of higher technical thresholds, so that investments in gas and nuclear energy could continue under a sustainable label. Although this may not be very surprising, given that these business associations exist with the sole aim of representing interests of the financial sector, this position does seem to be at odds with the way in which

[51] Germany's energy mix consists for roughly 25% of natural gas, see: Bundesverband der Energie-und Wasserwirtschaft, '*Die Energieversorgung 2021 – Jahresbericht*' (June 14 2022), p. 4; France depends for roughly 70% of its electricity on nuclear energy, see: World Nuclear Association, 'Nuclear Power in France', last modified March 2022, https://world-nuclear.org/information-library/country-profiles/countries-a-f/france.aspx.

[52] For a detailed description of the policy debate on the EU Taxonomy and actors involved, see: S&P Global, 'What the inclusion of gas and nuclear in the EU Taxonomy could mean for investors and asset managers', published February 22 2022, https://www.spglobal.com/esg/insights/what-the-inclusion-of-gas-and-nuclear-in-the-eu-taxonomy-could-mean-for-investors-and-asset-managers.

their members, the financial institutions, publicly endorse ambitious climate goals, sustainable investment and divestment from fossil fuel activities.

3.1.2. Operationalisation Corporate Political Activity (CPA)

In this section, I will explain what indicators I have identified to examine the nature of financial institutions' CPA. My focus will be on the CPA of business associations, that directly represent most of the financial institutions in the EU. However, I have also identified three indicators that signal deviation of financial institutions from the CPA engaged in by their general business associations. I will briefly state what these indicators are and what their role is in the remainder of the research.

The most politically engaged business associations of the 50 largest banks, insurance companies and asset managers are:[53]

i. The European Banking Federation (EBF), the general business association for the banking sector in Europe. Its membership consists of 32 national banking business associations, representing 5981 banks in total.[54]

ii. The Association for Financial Markets in Europe (AFME), a business association for the financial sector in general. It is engaged on all policy issues regarding the functioning of the European capital markets.[55] It has individual membership, which is mostly composed of banks and investment agencies, but not insurance companies.[56]

iii. The European Fund and Asset Management Association (EFAMA), the business association for the investment management industry.[57] Its membership consists

[53] InfluenceMap, '*The EU's Sustainable Finance Taxonomy*', p. 10.
[54] European Banking Federation, 'Demystifying AI for AML: European Banking Federation and SAS help banks worldwide fight financial crime. Joint press release', published October 13 2021, https://www.ebf.eu/ebf-media-centre/european-banking-federation-and-sas-ally-to-help-banks-fight-financial-crime-with-ai/
[55] Association for Financial Markets in Europe, homepage, last visited July 27 2022, https://www.afme.eu/.
[56] Idem, 'Members Directory', last visited July 27 2022, https://www.afme.eu/Membership/Members-Directory.
[57] European Fund and Asset Management Association, 'About us', last visited July 27 2022, https://www.efama.org/about-efama-0.

both of national business associations and individual corporate members. It has banks, insurance companies and asset managers as members.[58]

iv. Insurance Europe, the business association for the insurance industry. Its membership consists of 37 national insurance business associations, representing almost 95% of the total European Insurance Industry.[59]

As discussed, the lobbying activities of these business associations will be examined to construct the level of CSR-CPA misalignment of the individual companies. However, a number of financial institutions, despite their membership to one or more of these general business associations, have clearly distanced themselves from the CPA-positions put forward by their business associations. Within the context of the EU Taxonomy for Sustainable Activities, I have identified three indicators that signal this deviance:

i. Membership to the Institutional Investors Group on Climate Change (IIGCC). The IIGCC is a financial industry business association that represents financial institutions that (claim to) share a desire to reform the financial sector in an environmentally sustainable manner.[60] It is the only financial industry business association that took positions that were opposed to the positions taken by the general financial industry's business associations and consistently supported stricter and more environmentally sustainable financial regulation, as will be empirically demonstrated in the findings-section.

ii. Responses of individual financial institutions to the consultation of the European Commission on the Renewed Sustainable Finance Strategy. This is the only European consultation regarding sustainable finance regulation on which both business associations and a *substantial* number of individual

[58] Idem, 'Our members', last visited July 27 2022, https://www.efama.org/about-us/our-members.
[59] Insurance Europe, 'Insurance Europe in Figures. 2018 data' (2018) p. 2 and 4.
[60] Institutional Investors Group on Climate Change, 'About us', last visited July 27 2022, https://www.iigcc.org/about-us/.

financial institutions have responded. In question 82, it is asked whether respondents would be in favour of an extension of the Taxonomy to include environmentally unsustainable activities as well ('brown' taxonomy).[61] Several financial institutions took positions directly opposed to their respective business associations.

iii. Individual CPA by financial institutions on the European Level, which only one financial institutions has engaged in.

The nature of financial institutions' CPA will be examined based on the positions taken regarding the points identified in the policy debate (either individually or through their business associations; Membership to the IIGCC will signal deviation from the position taken by the general business association). Based on this assessment, it will be possible to divide the financial sector in three groups (see appendix):

1. Financial institutions that are member to the IIGCC and support the establishment of a 'brown' taxonomy. These financial institutions have clearly misaligned their CPA from the CPA engaged in by their general business associations.

2. Financial institutions that:

a. Are member to the IIGCC and oppose the establishment of a 'brown' taxonomy; either directly or through their business associations.

b. A limited number of financial institutions that are no member to the IIGCC, but explicitly support the establishment of a 'brown' taxonomy

These financial institutions have partially misaligned their CPA-activities from their business associations.

[61] European Commission, 'Consultation Document', question 82, p. 30.

3. Financial institutions that are no member to the IIGCC and have opposed the establishment of a 'brown' taxonomy, either individually or through membership to their business associations. These institutions have expressed least (to none) environmental concern in their CPA in the context of the EU Taxonomy.

This division will be the main input for the MSSD-approach, that I will discuss shortly.

3.1.3. Operationalisation Corporate Social Responsibility (CSR)

As the outcome variable in this research is the degree of CSR-CPA-misalignment, It is also important to assess the CSR-preferences of the financial institutions. To get a concise overview of CSR-preferences, I will briefly consider:

i. Commitment to the goals embedded in the Paris Climate Agreement;

ii. Specific commitments regarding renewable energy investments;

iii. The presence of fossil fuel divestment policies.

These data are well-derivable from sources such as publicly available annual and sustainability reports and press releases. These data will give a good indication of the publicly expressed perception by financial institutions of their corporate responsibility regarding climate change. These indicators comprise not only their high-level commitment to the goals in the Paris Climate Agreement, but also the presence of actual corporate policy to give substance to their societal responsibility. CSR-CPA misalignment will be established if companies publicly express concern for climate and the environmental sustainability of their investments, but at the same time engage in CPA aimed at weakening the EU Taxonomy.

For the construction of CSR, I will mainly look at annual and sustainability reports in 2018, as the policy process of the EU Taxonomy commenced and the Technical Expert

Group commenced its preparatory work for the draft Taxonomy.[62] As for the presence of fossil fuel divestment policies from fossil fuel investments, I look at the coal divestment database of the Institute for Energy Economics and Financial Analysis, that keeps track of all financial institutions with coal divestment policies in place, as well as corporate sustainability reports.

3.2. MSSD-analysis and typologies

Recall that the main interest of this research lies with the variance in CSR-CPA misalignment among comparable financial institutions and the mechanisms explaining this variance. In order to explore the causal mechanisms embedded in the hypotheses established in chapter 2, I have devised typologies by which I can compare different financial institutions and from which I can infer observations about the extent to which financial institutions are able to incorporate non-financial considerations in their CPA.

As derivable from the appendix, there are only 4 financial institutions that have fully misaligned their CPA from the CPA of their business associations. A little over 30 financial institutions fall within the second group. By far most financial institutions, namely all the others, fall within the third group. The starting point of the MSSD-analysis will be these 4 financial institutions. I will select, for each financial institution within group 1, a comparable financial institution (of the same subsector and, if possible, legal nationality) in group 2 and 3. I will establish the exact degree of CSR-CPA misalignment for each of the financial institutions in scope of the MSSD-research.

The typologies comprise the extent to which financial institutions consider climate change to be a financial risk to their operations, the share of environmentally (un)sustainable investments and their ownership structure. In my analysis, I will also take home country of the financial institutions into account, as well as the nature of their business activities and their clients. In light of the different hypotheses formulated in the theoretical section, I expect that these indications (possibly in combination with each other) have a relationship with the extent of CSR-CPA misalignment of the different institutions

[62] European Commission, 'Technical Expert Group on Sustainable Finance', last visited July 30 2022, https://ec.europa.eu/info/publications/sustainable-finance-technical-expert-group_en.

and, more generally, their ability to deviate from purely financial considerations in their CPA.

i. Risk perception of climate change.

Financial institutions report on their risk management in their annual reports. Climate change can be reported on as a societal risk, reputational risk, financial risk, or a combination. The consideration of climate change as a financial/business risk will not independently explain variance in CSR-CPA misalignment, but it may shed additional light on the analysis of a financial institution's ability to deviate from its direct financial interest.

ii. Environmentally sustainable investments as share of the total investment portfolio.

As mentioned, it is difficult, if not impossible, to assemble information on the exact investment activities of financial institutions. I will use investments in renewable energy projects as a proxy for environmental sustainability of investments in general. If these are substantial and part of deliberate corporate policy, financial institutions will report on the size of these investments in their annual reports or sustainability reports. If companies do not explicitly report on investments in renewable energy, these investments are assumed to be relatively low compared to their competitors.

If financial institutions have a relatively big share of their total assets invested in renewable energy projects, a support for stricter technical criteria for classification of economic activities as 'sustainable' will be considered as being in their direct financial interests. However, in this interpretation I will also consider whether financial institutions have concrete renewable energy investment goals in place. If this is the case, a high share of renewable energy investment projects would be the results of deliberate sustainability policy; and low CSR-CPA

misalignment could be explained by genuine environmental concern, rather than financial opportunism.

iii. Environmentally unsustainable investments as a share of the total investment portfolio

Again, exact information on financial institutions' investment portfolios is hard to retrieve. Luckily, there are several NGOs that have conducted extensive research on fossil fuel investments by financial institutions. I will use fossil fuel investments as a proxy for environmentally unsustainable investment in general. For this research, I will mainly rely on research collective FinanceMap, that has detailed company profiles for almost all financial institutions and provides information regarding the exposure of these institutions' investment portfolios to coal, oil and gas investments. As this collective has assembled data for almost all financial institutions using the same methodology, this is a very useful measure for this research in terms of comparability. A drawback is that there are no data available for 2018. FinanceMap only provides information about the current exposure of the investment portfolios. This is not too worrisome. As investment portfolios do not change overnight, this information is still quite telling about the basic characteristics of investment decisions of a certain financial institution, even a few years earlier. Moreover, current exposure of investment portfolios to fossil fuel investments could also retrospectively account for a financial institution's CPA on the EU Taxonomy.

For one subsection of the MSSD-research, comprising a group of insurance companies, I will derive my information from two reports by Profundo. A research institute that has researched the exposure of insurance companies to fossil fuel investments. I use two reports, that use data regarding insurance companies' fossil fuel investments from 2016 and 2017.

If financial institutions have a relatively big share of their total assets invested in fossil fuel projects, opposition to a 'brown' taxonomy will be considered as being in their direct financial interests. In this interpretation I will also consider

whether financial institutions have concrete fossil fuel divestment policies in place. If this is the case, a low share of fossil fuel investment projects would be the results of deliberate sustainability policy; and low CSR-CPA misalignment could be explained by genuine environmental concern, rather than financial opportunism.

iv. Ownership

Data on ownership of financial institutions is publicly available, at least as far as the largest shareholders are concerned. I use two websites, Marketscreener and CNN Business, that provide detailed, real-time information on the 10 largest shareholders of all companies with publicly traded shares. I use the total share of the company owned by its 10 largest shareholders as a proxy for institutional ownership of the company. If relevant, I will also provide specific information on the nature of the largest shareholders, for example when states, employees associations or ideological or ethical investment vehicles are among the largest shareholders.

Again, this data is unfortunately only available for 2022. This is unfortunate, especially since shareholders structures can, by the very nature of the stock market, change from day to day and can change non-trivially over the course of a few years.[63] However, if a consistent relationship is found between CSR-CPA misalignment and ownership structure, this would still be an interesting finding with explanatory value, even retrospectively.

If a consistent pattern is found that financial institutions are unable to engage in CPA that is not directly aligned with their financial interests, it can be considered that the monolithic approach to finance paints an accurate picture of the ability of financial institutions to incorporate environmental sustainability considerations in their decision-making. It may also

[63] Heineman and Davis, 'Are institutional investors part of the problem or part of the solution. Key descriptive and prescriptive questions about shareholders' role in U.S. Public Equity Markets', presentation on behalf of the Committee for Economic Development and the Yale School of Management/Millstein Centre for Corporate Governance and Performance (2011), p. 9.

be found that only those financial institutions with low degrees of CSR-CPA misalignment regarding the EU Taxonomy, are able to deviate from their direct financial interests. This would justify the observation that CSR-CPA misalignment is an effective outcome variable to examine the extent of financial institutions' incorporation of non-financial considerations in decision-making.

If it is found that a number of financial institutions is actually able to support Taxonomy regulation that is not directly aligned with their financial interests, this indicates that financial institutions can exhibit genuine concern for environmental sustainability and provides credibility to the pluralistic approach to finance. A non-correlation between investment portfolios and CSR-CPA misalignment will provide credible proof for the hypotheses derived from the principal-agent school. If principal-agent theory holds, it is expected that banks and insurance companies are consistently better able to delineate from their direct financial interests than asset managers, and insurance companies more so than banks. I will also examine whether the composition of shareholding will affect degrees of CSR-CPA misalignment. Considering financial logic theory, I will explore whether financial institutions that are able to delineate from their direct financial interests, are from home countries with significantly lower shares of financial sector employment.

4. Empirical analysis: CSR-CPA misalignment

4.1. Business associations' CPA

In order the establish the discrepancy between financial institutions' environmental sustainability preferences and their CPA, it is first necessary to analyse the CPA of the most important financial business associations: the EBF, the AFME, Insurance Europe and EFAMA. This section will discuss business associations' CPA on the relevant points identified in the analysis of the policy debate.

4.1.1. CPA concerning the scope of the application of the Taxonomy

In the very beginning of the EU Taxonomy policy process, the EBF argued with the European Commission that the EU Taxonomy should only apply as a specific standard for financial products marketed as 'green', rather than apply to the total investment portfolio of

financial institutions.[64] Moreover, the EBF supported a voluntary application of the Taxonomy, so that financial institutions would never be required to report on the Taxonomy alignment of their investments. These views were echoed by all other business associations.[65] The AFME also argued for an approach in which sustainable commitment or engagement regarding certain investments would be decisive for classification as sustainable. The AFME thereby specifically argued that it was undesirable that the EU Taxonomy could lead to a reduction of funding of environmentally unsustainable activities, that had committed themselves to more sustainable engagement in the future. It stated that financing environmentally unsustainable activities, could be sustainable as well. [66] The AFME thereby basically disapproved the establishment of the EU Taxonomy as a classification for sustainable activities, and thereby undermined the very purpose of the Taxonomy. Lastly, EFAMA also supported an 'incorporation of effort' in the EU Taxonomy, or an evaluation of a company's sustainability based on its written commitments.[67] Large parts of the efforts of these business associations focused on the reframing the Taxonomy as a tool to evaluate sustainability policies, rather than environmental sustainability of the actual investments. CPA was also heavily focused on a substantial reduction of the scope of the Taxonomy, being voluntary and only limited to financial products specifically marketed as 'sustainable'.

4.1.2. CPA concerning the nature of the Taxonomy criteria

The AFME argued multiple times that the Taxonomy thresholds should not be rigid, but flexible and dependent on market conditions.[68] Later in the policy process, the EBF stated that the Taxonomy thresholds should be set relative to total market performance, or even by market actors themselves. While doing so, the EBF argued that the Taxonomy should not

[64] EBF, ' EBF Comments on the EP Draft Report on the Proposal for a regulation on the establishment of a framework to facilitate sustainable investment' (December 12 2018), p. 2.
[65] Ibidem; AFME, 'AFME comments on European Parliament's Report on Taxonomy Regulation' (March 25 2019), p. 2; Insurance Europe, 'Insurance Europe position on the EU Taxonomy in view of trialogues' (November 5 2019), p. 1 and 5; EFAMA, 'EFAMA position on EU Taxonomy in view of Trialogues' (November 19 2019), p. 3; EFAMA, 'EFAMA response to the call for feedback on TEG report on EU Taxonomy' (September 16 2019).
[66] AFME, 'AFME position on the EU Taxonomy Regulation' (June 20 2019), p. 1 and 2.
[67] EFAMA, 'EFAMA's comments on the European Commission's Proposal for a Regulation on the establishment of a framework to facilitate sustainable investment' (August 22 2018), p.6.
[68] Idem, p. 8.

set rigid criteria for the economic activities per se, but rather for the processes by which market actors could set those criteria.[69] EFAMA, lastly, warned the European Commission for the establishment of 'overly prescriptive' criteria and consequently opposed thresholds for carbon emissions of economic activities.[70] EFAMA also opposed the possibility to make environmental standards more ambitious over time, fearing that investments would gradually become environmentally unsustainable.[71]

Put briefly, these business associations continuously lobbied for either dissolution of the technical criteria or substantial private sector involvement in their establishment, thereby undermining the goal of the EU Taxonomy: to make an objective, science-based system to classify economic activities as environmentally sustainable or unsustainable. Insurance Europe refrained from specific comments concerning the nature of the technical criteria.

4.1.3. CPA concerning the establishment of a 'brown' taxonomy for environmentally unsustainable activities

All business associations opposed the establishment of a 'brown' taxonomy, both in their contributions to the consultation on the first Taxonomy proposals in June 2019 and in their responses to the consultation on the Renewed Sustainable Finance Strategy.[72]

4.1.4. CPA concerning the exact Taxonomy thresholds.

The AFME lobbied with the European Commission for a significant increase of the thresholds by which electricity generation could be considered sustainable; from 100 g. CO2/Kwh to 350-420 gr. CO2/Kwh, so the Taxonomy classification would include the production of

[69] EBF, 'EBF Feedback on the sustainable finance taxonomy' (February 22 2019), p. 7-12. Retrieved from; EBF, 'European Commission's Technical Expert Group consultation on the usability of the taxonomy' (February 22 2019), p. 6.
[70] European Commission, 'Consultation on the Renewed Sustainable Finance Strategy. Received Contributions' (June 15 2020), EFAMA answer to question 49. Retrieved from: https://ec.europa.eu/info/consultations/finance-2020-sustainable-finance-strategy_en
[71] EFAMA, 'EFAMA's feedback on then draft delegated act of the taxonomy regulation for climate change mitigation and adaptation' (December 18 2020), p. 6.
[72] European Commission, 'Consultation on the Renewed Sustainable Finance Strategy. Received contributions', EBF, EFAMA, AFME and Insurance Europe answers to question 82; EBF, EBF Comments on the EP Draft Report on the Proposal for a regulation on the establishment of a framework to facilitate sustainable investment', p. 2; AFME, 'AFME position on the EU Taxonomy Regulation', p. 2; Insurance Europe, ' Insurance Europe position on the EU taxonomy in view of trialogues', p. 4.

natural gas, also in its less efficient forms.[73] The EBF joined the EFMA in this position, although it also argued for weaker scientific criteria in specific segments of the building sector.[74] This specific concern for the building environment was shared by EFAMA.[75] EBF, EFAMA and AFME, albeit to different extents, lobbied for sustainability criteria that were above the thresholds advised by the science-based Technical Expert Group. Insurance Europe refrained from providing feedback in this stage of the consultation.

4.1.5. Evaluation of business associations' CPA

The picture emerging from this analysis, is that of business associations that have continuously tried to undermine the establishment of an effective Taxonomy, mostly based on arguments related to market feasibility. CPA mainly focused on the nature of the Taxonomy in general and the nature of the Taxonomy criteria. The EBF has been most active in its lobby for flexible, market-based criteria as opposed to rigid, science-based criteria, whereas the AFME has been most vocal in its support for the inclusion of 'greening' activities, and explicitly raised concern about the possibility that environmentally unsustainable economic activities could be deprived from future investments. EBF, EFAMA and AFME proposed to put more focus on the sustainability commitments regarding investments, rather than assess the actual environmental impact of the investment. These business associations also lobbied for higher thresholds than advised by the Technical Expert Group. All business associations opposed the establishment of a 'brown' taxonomy for environmentally unsustainable activities. Insurance Europe has been engaged in relatively limited CPA on the EU Taxonomy, ''only'' actively opposing the application of the EU Taxonomy to all investment products and arguing against the establishment of a 'brown' taxonomy. However, almost all insurance companies are directly or indirectly member to EFAMA as well.

EFAMA has been more active than Insurance Europe and always supported the positions by AFME and EBF when it came to it. It did, however, refrain from a specific

[73] AFME, 'AFME position on the Taxonomy Report by the EU Technical Expert Group on Sustainable Finance'. p. 11.
[74] EBF, 'EBF final response to the Call for feedback on TED report on EU Taxonomy' (December 16 2019), p. 5 and 8.
[75] EFAMA, 'EFAMA's feedback on then draft delegated act of the taxonomy regulation for climate change mitigation and adaptation', p. 4-4.

position in the final phase of the exact formulation of the technical criteria. The AFME, on the other hand, has opposed an effective and environmentally sustainable Taxonomy regulation on all the relevant dimensions and has been the only of the three business associations to publicly state that it supported continued investment in environmentally unsustainable activities. The EBF, lastly, also opposed the EU Taxonomy regulation on all the relevant dimensions, but has not opposed the very philosophy of the Taxonomy as much as the AFME. Conceptually, therefore, membership to AFME constitutes CPA that is most misaligned from CSR, followed by EBF, EFAMA and Insurance Europe (in that order).

4.2. Deviation from business associations' CPA

An important counterindication that individual financial institutions do not align themselves with the CPA of the general business associations representing them, is membership to the IIGCC. As the IIGCC diametrically opposed to the positions taken by the general business associations, the position of the IIGCC will be considered to reflect better the actual position of the individual financial institutions. After all, membership to the IIGCC constitutes a deliberate choice to join ranks with only a limited number of other financial institutions in the support of this specific cause and therefore is more telling about the actual preferences of financial institutions than membership to one of the general business associations. Besides the IIGCC, there are other sustainable finance business associations, for example the Net-Zero Banking Alliance, but these have refrained from active CPA regarding the EU Taxonomy.

Another important counterindication are the individual financial institutions' responses to the consultation on the Renewed Sustainable Finance Strategy on the establishment of a 'brown' taxonomy. This was the only consultation on sustainable finance that multiple financial institutions responded to individually, as well as their business associations. In itself, this indicates that individual financial institutions are in fact able to directly and publicly oppose their business associations in supporting different policy preferences. This finding therefore support the view, that absence of counterindications indicates alignment between the policy-preferences of the individual financial institutions and the CPA of their business associations.

4.2.1. Individual CPA

Of all financial institutions in scope, German insurer Allianz was the only one individually engaged in CPA on the EU Taxonomy. in its 2018 sustainability report, Allianz committed itself to working alongside the European Commission on a uniform way of climate-related disclosure, thereby backing the EU Taxonomy for Sustainable Activities.[76] In its responses to consultations on the EU Taxonomy, it deviated from the position of its business associations and supporting rigid, science-based technical criteria instead of flexible, market-oriented criteria.[77]

4.2.2. Membership to the IIGCC

The IIGCC firstly responded on a consultation concerning the usability of the proposed Taxonomy in February 2019. Interestingly, the feedback it provided was less detailed and less extensive than the feedback disclosed by the general business associations, suggesting that it agreed with the European Commission concerning important elements such as the nature of the Taxonomy criteria and the scope of the application of the Taxonomy. The IIGCC actually proposed a broader application of the Taxonomy, to incorporate the value chain of an economic activity in the assessment of its environmental sustainability, so that supposedly 'green' activities with 'brown' value chains could not be considered environmentally sustainable.[78] Likewise, in September 2019, the IIGCC responded to the Taxonomy Technical Report of the Technical Expert Group on Sustainable Finance and provided no feedback on the formulation of the technical criteria, thereby signalling support for strict science-based criteria, instead of flexible, market-based criteria. It did argue for flexibility, in the sense that thresholds might be set more ambitious in light of improving technology.[79]

Later in the policy process, the IIGCC has been very vocal in opposing dimensions of the Taxonomy and positions taken by the general business associations. Both in the

[76] Allianz, '*Shaping out sustainable future. Allianz Group sustainability report 2018'* (2018), p. 42.
[77]Allianz SE, 'Allianz Positions. EU com taxonomy delegated act' (December 18 2019), p. 1. R
[78] IIGCC, 'IIGCC consultation response. Feedback on the usability of the EU taxonomy' (February 22 2019), p. 2.
[79] IIGCC, 'IIGCC response to the consultation on the EU Technical Expert Group on Sustainable Finance: Taxonomy Technical Report' (September 11 2019), p. 2.

consultation to the draft delegated act of the Taxonomy and in three separate press releases late 2020 and early 2021, the IIGCC opposed the inclusion of natural gas and nuclear energy in the Taxonomy regulation as an environmentally sustainable activity and strongly endorsed the subscription to the 100 g. CO2/KwH threshold for classification of electricity generation as sustainable.[80] In doing so, it opposed directly, publicly and diametrically the general business associations, with which they shared a part of their membership. As the IIGCC became very actively CPA-engaged from the moment elements of the Taxonomy developed in directions that it considered undesirable, this is an indication that the relatively limited CPA-engagement in earlier parts of the policy process can be analysed as support for the nature, scope and application of the Taxonomy as proposed by the European Commission and the Technical Expert Group.

Recapitulating, membership to the IIGCC indicates a substantially more environmental sustainability-aligned CPA. The CPA of the IIGCC signalled support for strict, scientific criteria and the application of the Taxonomy to all investments by financial institutions and warned for risks of greenwashing embedded in the earlier versions of the Taxonomy. Moreover, in the final phase of the policy process, the IIGCC was very active in its lobby for the formulation of environmentally sustainability thresholds that were significantly stricter than supported by the general business associations.

Interestingly, however, the IIGCC refrained from expressing either opposition or support concerning the establishment of a 'brown' taxonomy in the consultation on the Renewed Sustainable Finance Strategy 2020, whereas the 'general' business associations did publicly expressed their view (opposition) in this consultation.

[80] European Commission, 'Feedback from: Institutional Investors Group on Climate Change', last visited December 16 2020, https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12302-Sustainable-finance-EU-classification-system-for-green-investments/F1307981_en; IIGCC, 'Re: Draft Delegated Regulation under the Taxonomy Regulation' (February 16 2020); IIGCC, letter to Ursula von der Leyen (President European Commissions) and Mairead McGuinness (EU commissioner for Financial services, Financial Stability and Capital Markets Union) (April 15 2020). Retrieved from; IIGCC, 'IIGCC publishes open letter calling for gas to be excluded from the EU Taxonomy' ((January 12 2022).

4.2.3. Position concerning the establishment of a 'brown' taxonomy.

The discussion concerning the establishment of a 'brown' taxonomy for environmentally unsustainable activities has always been neatly intertwined with the broader discussion on a 'green' Taxonomy. The Technical Experts Group, in its final report on the EU Taxonomy published in 2020, even explicitly stated that the Taxonomy would not be 'fully realised' if it were not complemented by a clear Taxonomy for environmentally unsustainable activities.[81]

The general philosophy behind the EU Taxonomy is that a uniform and objective classification of environmentally sustainable activities will provide information on the exact investment activities of financial institutions, that are of relevance both to policy makers and clients. Absence of a clear classification of environmentally unsustainable economic activities and subsequent financial disclosure requirements, does constitute a barrier to achievement of the this goal. For a profound transformation of global finance in line with climate concerns, it is just as important that more money is allocated to environmentally sustainable activities, as that it is important that less money (or preferable: no money at all) is allocated to activities that actively obstruct achieving the Paris Climate Goals.

Therefore, the position of individual financial institutions on the establishment of a 'brown' taxonomy is an important indication of their genuine concern for environmental sustainability. Public support of individual financial institutions for the establishment of a 'brown' taxonomy, in direct opposition to their business associations, is a clear signal that these financial institutions deviate from the CPA of their business associations in a profoundly more environmentally sustainable manner.

4.3. Classification financial institutions based on the incorporation of environmental sustainability concerns in their CPA

Based on the previous discussion, membership to the IIGCC and support for the establishment of a 'brown' taxonomy indicates CPA of individual business associations that is clearly misaligned from the CPA of the general business associations and expresses a significantly better incorporation of environmental sustainability concerns.

[81] EU Technical Expert Group on Sustainable Finance, *'Technical Report. Taxonomy: final report of the Technical Expert Group on Sustainable Finance'* (March 2020), p. 51.

Focusing on the 50 largest banks, insurance companies and asset managers, the conclusion of this first categorisation is that there are only 4 financial institutions that seem to profoundly incorporate environmental sustainability concerns in their CPA: Aviva, Allianz Group, Danske Bank and Invesco. As for the 50 largest asset managers, I have only considered independent asset managers, as a part of the 50 largest asset managers are actually just divisions of the banks and insurance companies (see appendix).

Recall that the main research question in this research is to uncover the extent to which financial institutions are able to incorporate non-financial considerations in their decision-making, and to explain why certain financial institutions seem to be better able to do so than other comparable financial institutions. As mentioned, I will engage in a MSSD-approach to answer these questions. As I have only examined financial institutions that are in the top 50 of their financial subsector, the financial institutions will always be well comparable in terms of size. For optimal comparison, I will compare the financial institutions out of group 1 with financial institutions out of group 2 and 3 of the same subsector. The total number of financial institutions within group 1 and 2 is limited and it is not always possible to select a comparable financial institutions that is also originated from the same country. This is the case for Allianz (Germany), for which there is no group 2 German insurance company in the top 50 and for Danske Bank; for which there is no other top 50 Danish bank that falls within group 3 (see appendix).

In these cases, I have based my selection of financial institutions for the MSSD-research on classic typologies of welfare state regimes derived from Political Economy literature. Countries with similar welfare state regimes are generally considered most economically, societally and politically comparable. There are several schools of classification and I do not aim to take explicit position in this extensive and completely separate debate, but, generally speaking, the Scandinavian countries are clustered together and Germany is usually compared with countries such as the Netherlands, Belgium, Switzerland and Austria.[82] If there are multiple institutions available from the same country or economically comparable countries, I will choose the financial institution with the closest proximity in size (in terms of total assets). Taking into account all these considerations, the following case selection is made:

[82] Arts and Gelissen, 'Three world of welfare capitalism or more? A state-of-the-art report' in: *Journal of European Social Policy* 12, no. 2 (2002), p. 149-150.

Table 1

Group 1	Group 2	Group 3
Allianz Group (Germany)	Aegon (Netherlands)	Munich Re (Germany)
Aviva (UK)	Legal & General (UK)	Prudential Plc (UK)
Invesco (US)	T. Rowe Price (US)	Franklin Templeton (US)
Danske Bank (Denmark)	Nykredit (Denmark)	DNB ASA (Norway)

Because the exact nature of financial institutions' CPA depends on membership to business associations and their responses to the consultation of the Renewed Sustainable Finance Strategy, for overview I will assign CPA-scores to the individual financial institutions.

Financial institutions' CPA can best be analysed on a scale from 0-10, that does justice to the different degrees of CSA-engagement I have identified. Recall that Insurance Europe was the business association least opposed to the EU Taxonomy, 'only' opposing the establishment of a 'brown' taxonomy and a broad application of the Taxonomy. In itself this is not that relevant, as almost all insurance companies are also member to EFAMA, except for German insurance companies. Membership to AFME conceptually constitutes the worst opposition to the EU Taxonomy. As will become clear, none of the financial institutions in scope of the MSSD-research are member to AFME. Nonetheless, it is still important to bear its existence in mind, as a significant part of the Group 3 financial institutions are in fact member to AFME.[83]

Financial institutions in group 1 will be assigned a score of 10. A score of 0 is (theoretically) assigned to financial institutions in group 3 that are member to AFME, signalling non-incorporation of environmental concerns in their CPA at all. EBF membership leads to an assignment of score 1, whereas membership to EFAMA leads to assignment of score 2 and membership to Insurance Europe to score 3. For group 2, membership to the IIGCC, but opposition to the establishment of a 'brown' taxonomy results in the assignment of score 5. I have arrived at the following CPA-classification, a low score signalling little incorporation of environmental sustainability concerns in CPA.

[83] AFME, 'Members Directory', last visited July 30 2022, https://www.afme.eu/Membership/Members-Directory.

Table 2

Group 1	Membership IIGCC	Support 'brown' taxonomy	Business association memberships (if relevant)	**CPA-score**
Allianz	Yes	Yes		10
Aviva	Yes	Yes		10
Invesco	Yes	Yes		10
Dankse Bank	Yes	Yes		10
Group 2				
Aegon	Yes	No		5
Legal & General	Yes	No		5
T. Rowe Price	Yes	No		5
Nykredit	Yes	No		5
Group 3				
Munich Re	No	No	Insurance Europe[84]	3
Prudential Plc	No	No	EFAMA[85], Insurance Europe[86]	2
Franklin Templeton	No	No	EFAMA[87]	2
DNB ASA	No	No	EBF, EFAMA[88]	1

[84] Munich Re is member to Insurance Europe, through its membership to Gesamtverband der Versicherer (GDV), the German insurance business association, see: GDV, 'GDV-Mitgliedsunternehmen. Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München', last visited July 31 2022, https://www.gdv.de/de/ueber-uns/unsere-mitglieder/wer-versichert-was/muenchener-rueckversicherungs-gesellschaft-aktiengesellschaft-in-muenchen-46990 and; Insurance Europe, 'All members', last visited July 31 2022, https://www.insuranceeurope.eu/about-us/2/who-we-are/members/all-members.

[85] Prudential is member to EFAMA, through its membership The Investment Association, the UK investment institutional investor business association, see: The Investment Association, 'Our members. Full', last visited July 31 2022, https://www.theia.org/about-us/members/full and: EFAMA, 'Our members', last visited July 31 2022, https://www.efama.org/about-us/our-members.

[86] Prudential is member to Insurance Europe, through its membership to the Association of British Insurers (ABI), the UK insurance business association, see: ABI, 'ABI members', last visited July 31 2022, https://www.abi.org.uk/about-the-abi/abi-members/?sw=p&p=2, and; Insurance Europe, 'All members', last visited July 31 2022, https://www.insuranceeurope.eu/about-us/2/who-we-are/members/all-members.

[87] Franklin Templeton is a corporate member to EFAMA, see: 'EFAMA, 'Our member', last visited July 31 2022, https://www.efama.org/about-us/our-members.

[88] DNB ASA is member to EBF through its membership to Finans Norge, the Norwegian business association for the financial industry, see: Finans Norge, 'Members', last visited July 31 2022,

4.4. Corporate Social Responsibility financial institutions

Taking into account these 12 institutions in the MSSD-approach, it is firstly necessary to give a brief description of the CSR-preferences of these financial institutions. Financial institutions' CSR will be analysed on the dimensions introduced in the research design-section of this thesis.

These pieces of information can be easily derived from annual reports, sustainability reports and press releases. I will assign the scores 8, 9 and 10, with an 8 assigned to financial institutions with only 1 CSR-parameters and a 10 for financial institutions that have publicly expressed CSR-preferences for all parameters. These scores may seem random, but they are chosen deliberately for optimal determination of the exact level of CSR-CPA misalignment, as will become clear. No scores are given to financial institutions with no CSR-parameters at all, as in that case establishing CSR-CPA misalignment is not possible.

Because the information regarding the CSR-scores is straightforward, I will present the CSR-findings in a simple table. I will not analyse these plans normatively in very much detail, nor do I claim in any way that these plans are sufficient to meet the societal demands that are laid upon financial institutions. I do think that the presence of these factors gives an indication of the way in which financial institutions perceive and express their CSR. Renewable energy investment goals and fossil fuel divestment policies, moreover give an indication of the presence of any willingness on the side of the financial institutions to materialise their sustainability commitments.

https://www.finansnorge.no/en/about-finance-norway-new/members/, and: EBF, 'Finans Norge', last visited July 31 2022, https://www.ebf.eu/norway/.

Table 3

	Commitment Paris Climate Agreements	Coal divestment policies	Renewable energy investment goals	**CSR-score**
Group 1				
Allianz	yes[89]	yes[90]	no[91]	9
Aviva	yes[92]	yes[93]	yes[94]	10
Invesco	no	no[95]	no	---
Dankse Bank	yes[96]	yes[97]	no	9
Group 2				
Aegon	yes[98]	yes[99]	no	9
Legal & General	yes[100]	no[101]	yes[102]	9
T. Rowe Price	no	no[103]	no	---
Nykredit	yes[104]	no[105]	no	8

[89] Allianz SE, 'Shaping out sustainable future', p. 7.
[90] Idem, p. 30.
[91] Allianz does not have specific renewably energy investment targets in place. However, it does report transparently on the developments of its renewable energy investments over the years and it is currently one of the biggest renewably energy investors in the world. As of 2018, it aimed to set concrete, quantitative targets in the first half year of 2018, see: idem, p. 37 and 92.
[92] Aviva, '*Aviva's Climate-Related Financial Disclosure 2018*' (2018), p. 7.
[93] Institute for Energy Economics and Financial Analysis, 'Coal divestment', last visited July 28 2022, https://ieefa.org/coal-divestment.
[94] Aviva, '*Environmental, Social and Governance Data'* (2019), p.9.
[95] IEEFA, 'Coal divestment'.
[96] Danske Bank, '*Corporate Responsibility 2019. UN Global Compact Communication on Progress'* (2018), p. 7.
[97] Ibidem.
[98] Aegon, '*2018 Responsible Investment Report. Making the link: building better, more sustainable world'* (2018), p. 12.
[99] Idem, p. 11.
[100] Legal & General, *'Improving lives through inclusive capitalism. Legal & General Group Plc. Annual Report and Accounts 2018*' (2018), p. 34.
[101] IEEFA, 'Coal divestment'.
[102] Legal and General, '*Taking action for a better world. Legal & General Plc. Corporate Social Responsibility Report 2018*' (2018), p. 23.
[103] IEEFA, 'Coal divestment'.
[104] Nykredit Group, '*We believe in people and businesses all over Denmark. Corporate Responsibility Report 2018*' (2018), p. 25.
[105] IEEFA, 'Coal divestment'.

Group 3				
Munich Re	yes[106]	yes[107]	yes[108]	10
Prudential Plc	no	no	no	---
Franklin Templeton	no	no	no	---
DNB ASA	yes[109]	yes[110]	no	9

4.5. Analysis financial institutions' CSR-CPA misalignment

Looking at the CSR-preferences of all major financial institutions, it is clear banks and insurance companies proclaim to be concerned about the environment and aware of their societal responsibility in the energy transition (except Prudential Plc). Interestingly, asset managers make no mention of profound concern for environmental sustainability. There is variance within the organisations concerning the existence of fossil fuel divestment plans and the existence of concrete commitment to renewable energy investments.

Bear in mind that a low CSR-score still signals high-level public support for climate policy and that a low CSR-score therefore always signals undesirable CSR-CPA misalignment, at least if CPA is aimed at restriction of the EU Taxonomy. CSR-CPA misalignment might, nonetheless, be higher if a company claims to be very profound in its environmental concern, while at the same time it is engaged in CPA that obstructs the establishment of an effective Taxonomy. Recalling the earlier classification of the incorporation of environmental concerns in financial institutions' CPA and combining those scores with the CSR-scores in the table above, the following classification regarding the extent of CSR-CPA misalignment becomes apparent. The CSR-CPA misalignment score simply reflects the difference between the CSR and CPA scores assigned earlier in the research. In this way, those institutions that have extensive publicly expressed CSR-preferences (assigned score

[106] Munich Re, '*Corporate Responsibility Report 2018*' (2018), p. 4.
[107] Idem, p. 8.
[108] Idem, p. 29.
[109] DNB Group, 'Annual report 2018. Creating value for customers, shareholders, employees and societies at large' (2018), p. 61.
[110] DNB Group, 'CSR/ESG sector guidance – energy' (August 2016), p. 2. Retrieved from: https://www.dnb.no/portalfront/nedlast/no/om-oss/samfunnsansvar/2016/CSR-ESG-sector-guidance-Energy_pdf.pdf

10), but the most limited environmentally concerned CPA (assigned score 1), will be assigned the highest CSR-CPA misalignment scores. If institutions have consistently engaged in sustainable CPA, but have limited CSR-preferences, this will also lead to a small CSR-misalignment score.

As for the asset managers (and Prudential Plc), it is not technically possible to assign a CSR-CPA misalignment score, as they have no CSR-score due to their absence of publicly expressed concern for environmental sustainability.

Table 4

Group 1	CSR-score	CPA-score	**CSR-CPA misalignment**
Allianz Group	10	9	1
Aviva	10	10	0
Invesco	---	10	---
Dankse Bank	9	10	1
Group 2			
Aegon	9	5	4
Legal & General	9	5	4
T. Rowe Price	---	5	---
Nykredit	8	5	3
Group 3			
Munich Re	10	3	7
Prudential Plc	---	1	---
Franklin Templeton	---	1	---
DNB ASA	9	1	8

To further examine what explains these different levels of misalignment, I have developed different typologies, as discussed in the research design-section, to analyse the relationship between these typologies and the levels of CSR-CPA misalignment; and assess how these relationships fit the hypotheses derived from the theoretical section.

5. MSSD-research

As discussed in the research design-section, I will make typologies of the financial institutions within the different groups based on their perception of climate change as a financial risk, the share of fossil fuel investments, the share of renewable energy investments, and the ownership structure of the companies.

If financial institutions have not voluntarily disclosed data on their investment in renewable energy projects, involvement in such projects will be assumed to be low (after all, financial institutions have a clear reputational incentive to report on these investments if they are substantial). I will also make a first assessment, based on these data, of the extent to which financial institutions engage in CPA that is opposed to their direct financial interest.

5.1. Typologies

In this section, the different financial institutions (insurance companies, banks and independent asset managers) will be compared with each other. There are four subsections, one for each series of comparable financial institutions.

My main concern is the exact comparability of different institutions, and therefore the sources of the empirical data regarding fossil fuel investments are sometimes slightly different, which I will elaborate on at the beginning of each section. The data on renewable energy investments are derived from the companies' annual or sustainability reports in 2018. For reasons of comparability, I present the renewable energy investments as a percentage of 2017 total assets (that is: December 31). I have derived these data from the Wall Street Journal/Markets Database. I use the total assets of the company, rather than assets under management (AuM), because I found that AuM are not as uniformly reported on as total assets. Information regarding ownership is derived from the online Market

Screener Database and the CNN Business Database and reflects the 2022 ownership structure.

The MSSD-outcome will be presented in tables. For clarity of presentation, more elaborate comments regarding ownership structure are given in the footnotes. Each subsection ends with an analysis of the MSSD-outcome, examining the extent to which these financial institutions are able to deviate from their direct financial interests; the relationship of this ability with CSR-CPA misalignment; and an interpretation of the MSSD-outcome in light of the hypotheses formulated in the theoretical section. After the different MSSD-sections, a general analysis of the MSSD-research and the meaning thereof in light of the hypotheses will be given.

I will explain to which extent the study of CSR-CPA misalignment can tell us something about the ability of financial institutions to incorporate non-financial considerations in their decisions and what are factors that explain this. This analysis will be the main input to subsequently reflect on the hypotheses derived from the theoretical section.

Each individual section will reflect on hypothesis 1, derived from the monolithic approach to finance, and hypothesis 3, derived from the principal-agent approach to finance regarding ownership structure. Hypotheses 2, regarding the nature of the financial institution's activities, and 4, derived from financial logic school, will be discussed in the overall discussion of the MSSD-sections, as those hypotheses involve the comparison of the financial institutions across subsectors and countries.

5.1.1. Insurance companies – I

The first MSSD-section will compare insurance company Allianz (Germany) with Aegon (the Netherlands) and Munich Re. Munich Re, unfortunately, is the only one of the insurance companies in scope on which neither FinanceMap nor the WSJ/Markets database provides information.

As regards the fossil fuel investments, research institute Profundo did research the fossil fuel exposure of insurance companies in a 2017-report, which will be used as input for this MSSD-research. That 2017 report studies the investment portfolios of Allianz and Munich Re, but not of Aegon. However, Profundo conducted another research with the

same research question, targeted at insurance companies active in the Netherlands, which did include Aegon. This research investigated investments in 2016 and 2017. The outcomes of this research are therefore rather comparable, especially since both researches were conducted using the same methodology. The profundo reports focused specifically on investment and researched share- and bondholding in fossil fuel-based companies. I will express the fossil fuel investments as a percentage of total assets by the end of 2017, as I do with renewable energy investments.

As regards total assets, Munich Re does luckily present data on its total group-wide assets in its annual reports, which is the same way of total assets calculation as the WSJ/Markets database provides.

Table 5

	Group	CSR-CPA-misalignment	Climate change as financial risk	Fossil fuel investments	Renewable energy investments	Specific remarks concerning ownership
Allianz	1	1	yes[111]	6,28[112]	0,85[113]	Relatively limited institutional ownership[114]

[111] Allianz SE, 'Shaping our sustainable future', p. 84-85.
[112] Simons and de Wilde, 'The involvement of European insurance groups in the fossil fuels sector. A report for the Sunrise Project' (May 3 2017) Profundo, p. 27; Wall Street Journal Markets, 'Allianz SE. Balance Sheet', last visited July 28 2022, https://www.wsj.com/market-data/quotes/XE/XETR/ALV/financials/annual/balance-sheet.
[113] In 2018, Allianz had invested Euro 6,8 billion in renewable energy infrastructure, see: Allianz SE, 'Shaping our sustainable future', p. 37; Wall Street Journal Markets, 'Allianz SE. Balance Sheet'
[114] Allianz Group was owned by institutional investors for roughly three quarters and for roughly one quarter by private investors. Its 10 largest shareholders hold a little over 15% of the company, the biggest of which is the investment entity of Allianz itself (3%); Marketscreener, 'Allianz SE (ALV)', last visited July 28 2022, https://www.marketscreener.com/quote/stock/ALLIANZ-SE-436843/company/.

Aegon	2	4	No	0,30[115]	0,16[116]	Large institutional ownership; 15% Aegon association[117]
Munich Re	3	7	No	0,82[118]	0,25[119]	Relatively limited institutional ownership[120]

Analysis

Allianz, the insurance company that has most consistently aligned its CPA with CSR-preferences, has clearly taken a position regarding the EU Taxonomy that deviated from its direct financial interests. In 2018, it had a substantial fossil fuel investment portfolio (total value more than Euro 50 Billion) that is also relatively very large in comparison to the other insurance companies. Nonetheless, it lobbied in favour of the establishment of a 'brown' taxonomy and opposed the inclusion of natural gas and nuclear energy in the EU Taxonomy, although these would be unfavourable developments to Allianz. This seems to indicate a sincere commitment to environmental concerns and a desire to cut down its fossil fuel investments in the future, substantiated by the fact that Allianz does have fossil fuel divestment policies in place.[121] Allianz's renewable energy investments are high compared to the other insurance companies, meaning strict Taxonomy regulation would be favourable

[115] Gelder, van et al, 'Fossil fuel versus renewable financing by financial institutions active in the Netherlands: A case study for Fair Finance Guide Netherlands' (October 2021) Produndo, p. 61-62; Wall Street Journal Markets, 'Aegon N.V.', last visited July 28 2022, https://www.wsj.com/market-data/quotes/NL/XAMS/AGN/financials/annual/balance-sheet.

[116] In 2018, Aegon invested more than Euro 500 million in renewable energy projects, see: Aegon, 'Integrated Annual Report 2018' (2018), p. 22; Wall Street Journal Markets, 'Aegon N.V.'

[117] Aegon is owned for 15% by the Aegon Association. The 9 other largest institutions investors hold about 30% of Aegon; Marketscreener, 'Aegon N.V.', last visited July 28 2022, https://www.marketscreener.com/quote/stock/AEGON-N-V-6275/company/

[118] Simons and de Wilde, 'The involvement of European insurance groups in the fossil fuels sector', p. 68; Munich Re, *Group Annual Report 2018'* (2018), p. 0.

[119] In 2018, Munich Re had invested Euro 662 million in renewable energy infrastructure projects, see: Munich Re, *Group Annual Report,* p. 135.

[120] The 10 largest shareholders of Munich Re own less than 20% of the total shares of Munich Re, with no one exceeding a percentage of 3%; Marketscreener, 'Munich Re (MUV2)', last visited July 28 2022, https://www.marketscreener.com/quote/stock/MUNICH-RE-436858/company/.

[121] Allianz's fossil fuel divestment policies include all coal, gas and oil related economic activities and is therefore very ambitious compared to its competitors, see; IEEFA, 'Coal divestment' and IEEFA, 'Oil and Gas Divestment', last visited July 30, https://ieefa.org/oil-gas-divestment.

for Allianz. However, the high renewable energy investments are the result of deliberate investment policy, making Allianz one of the biggest renewable energy investors in the world.[122] These findings therefore seems to be aligned with the observation that Allianz's CPA reflects genuine environmental concerns. As Allianz perceives climate change as a financial risk, its commitment to a Paris-aligned taxonomy may be partially financially driven as well. However, it's support for a 'brown' taxonomy alongside its quite massive fossil fuel investment portfolio, does indicate incorporation of non-financial considerations overall.

Aegon, in its support for a stringent, science-based Taxonomy without the inclusion of natural gas and nuclear energy, also deviates from its direct financial interests, given its relatively low share of renewable energy investments. Interestingly, in its *opposition* to a 'brown' taxonomy it also opposes its direct interests, given its relatively low share of fossil fuel investments (especially since this is also the result of deliberate coal divestment policy).[123] Overall, Aegon is able to deviate from its direct financial interests in its CPA regarding the EU Taxonomy, especially since it does not consider climate change as an actual financial risk. The observations concerning Aegon and Allianz indicate that Hypothesis 1, derived from the monolithic approach to finance, is not universally tenable.

As Munich Re is concerned, that has engaged in no environmentally sustainable CPA and has the highest degree of CSR-CPA misalignment, the picture is quite clear: it does not perceive climate change as financial risk, it has relatively low renewable energy investments and opposed a stringent and effective EU Taxonomy (although these investments are higher than Aegon's). At the same time, its fossil fuel investments are relatively large. Consequently, it has opposed the establishment of a 'brown' taxonomy. Munich Re clearly is unable to deviate from its direct financial interests.

It seems that the ownership structure seems to bear little relationship with CSR-CPA misalignment levels or a financial institution's ability to incorporate non-financial considerations in its decision, with Munich Re, as well as Allianz having relatively limited institutional ownership. Aegon has high institutional ownership, but is also owned for 15% by its employees association. These observations seem to be at odds with Hypothesis 3, derived from the principal-agent approach to finance.

[122] See table 3.
[123] See table 3.

Particularly interestingly is that Munich Re is an insurance company that does not have private individuals as its clients, but is a re-insurer (a type of insurer that insures the risks of other insurers, that in turn do provide insurance products to private individuals). This observation seems to be in favour (at least partially for now) with hypothesis 2, stating that insurance companies and banks will show higher degrees of CSR-CPA misalignment, because they are accountable to their private clients, that are driven by non-financial preferences as well. In light of that hypothesis, it is not surprising that Munich Re does not seem to be able to deviate from a financial perspective, as it only has other financial institutions (insurance companies) as its clients.

A preliminary observation is that CSR-CPA misalignment seems to be an effective outcome variable to determine financial institutions' ability to incorporate non-financial considerations in their decisions; with Allianz and Aegon indeed expressing an ability to embrace environmental sustainability concerns (Allianz to the greatest extent).

5.1.2. Insurance companies – II

This section will compare insurance company Aviva (UK), reflecting the lowest degree of CSR-CPA misalignment, with insurance companies Legal & General and Prudential Plc, all UK-based.

Both Aviva and Legal & General report on renewable energy investments. Unfortunately, in 2018 Aviva reported on annual renewable energy investments and Legal & General on total renewable energy investments. For Aviva, I have been able to estimate the total renewable energy investments in 2018, by deducting the renewable energy investments in 2019 from the total renewable energy investments in 2019.

Table 6

	Group	CSR-CPA-misalignment	Climate change as financial risk	Fossil fuel investments/ Portfolio 21	Renewable energy investments	Specific remarks concerning ownership
Aviva	1	0	yes[124]	3,83[125]	0,72[126]	Large institutional ownership[127]
Legal & General	2	4	yes[128]	1,14[129]	0,2[130]	Relatively limited institutional ownership[131]
Prudential	3	---	yes[132]	0,14[133]	N.A.	Large institutional ownership[134]

[124] Aviva, 'Aviva's climate-related financial disclosure 2018', p. 4.
[125] FinanceMap, 'Aviva', last visited July 28 2022, https://financemap.org/financialgroup/AVIVA-GROUP
[126] In 2019, Aviva had invested Pound 3,8 billion in renewable energy infrastructure, after investing an additional Pound 700 million in that same year, see: Aviva, '*Aviva's Climate-Related Financial Disclosure 2019*' (2019), p. 17; Wall Street Journal Markets, 'Aviva PLC' last visited July 28 2022, https://www.wsj.com/market-data/quotes/UK/XLON/AV/financials/annual/balance-sheet.
[127] Aviva was owned by institutional investors for more than 93%. Its 10 largest shareholders hold over 25% of the company, see: Marketscreener, 'Aviva PLC (AV)', last visited July 28 2022, https://www.marketscreener.com/quote/stock/AVIVA-PLC-4000581/company/https://www.aviva.com/investors/shareholder-profile/; Aviva, 'shareholder profile', last visited July 28 2022, https://www.aviva.com/investors/shareholder-profile/
[128] Legal & General, 'Improving lives through inclusive capitalism', p. 34.
[129] FinanceMap, 'Legal & General Group', last visited July 28 2022, https://financemap.org/financialgroup/LEGAL-GENERAL-GROUP.
[130] In 2018, Legal and General had invested Pound 1 billion in renewable energy infrastructure, see: Legal and General, 'Taking action for a better world', p. 22; Wall Street Journal Markets, 'Legal % General Group PLC', last visited July 28 2022, https://www.wsj.com/market-data/quotes/UK/XLON/LGEN/financials/annual/balance-sheet.
[131] Legal & General is owned for about 25% by its 10 largest shareholders, with no specific peculiarities in ownership structure; Marketscreener, 'Legal & General PLC (LGEN)', last visited July 28 2022, https://www.marketscreener.com/quote/stock/LEGAL-GENERAL-PLC-4002140/company/
[132] Prudential, '*We do life. Annual report 2018*' (2018), p. 413.
[133] FinanceMap, 'Prudential', last visited July 28 2022, https://financemap.org/financialgroup/Prudential-507061965e05f266243330673fd870bc-7134730.
[134] Prudential is owned for more than 40% owned by its 10 largest shareholders, constituting very large institutional ownership compared to its competitors; Marketscreener, 'Prudential Plc (PRU)', last visited July 28 2022, https://www.marketscreener.com/quote/stock/LEGAL-GENERAL-PLC-4002140/company/.

Analysis

The analysis of Aviva is comparable to that of Allianz. It has supported the establishment of a 'brown' taxonomy, despite a relatively very large fossil fuel exposure of its investment portfolio. This is clearly misaligned with its direct financial interests (apart from the fact that Aviva does report on climate change as a financial risk). Of the insurance companies in scope in this section, Aviva has the largest renewable energy investments, indicating its willingness to invest. Of course, this means that a strict EU Taxonomy will reflect favourably upon Aviva, but the high renewable energy investments are the result of deliberate investment policy, signally genuine commitment to environmental sustainability.[135]

Analysis of Legal & General gives a somewhat mixed picture. It has relatively high fossil fuel exposure, but not as high as Aviva, and consequently opposes the establishment of a 'brown' taxonomy. At the same time, its renewable energy investments are quite low compared to Aviva, but probably relatively high compared to a other competitors (indicated by the fact that Prudential Plc is not even willing to report on these investments). Consequently, it supports a strict and science-based EU Taxonomy. On the other hand, Legal & General also has renewable energy investment targets in place, indicating a genuine willingness to increase its relatively low share of renewably energy investments.[136] Overall, Legal & General is not conclusively able to deviate from its own direct financial interests, but its company profile does provide indicators that its environmental concerns are, to a certain extent, genuine.

As for Prudential Plc, with very limited investment exposure to fossil fuels, its opposition to a 'brown' taxonomy for environmentally sustainable activities is not directly in its interests. Its opposition to the 'brown' taxonomy (which it did not engage in directly, but through its business association) could also signal a lack of interest, rather than very deliberate activity. Prudential does not seem to be able to truly deviate from its direct individual interests, as it does not seem to have very explicit financial interests to pursue, given its limited energy investment-activity. This is substantiated by the absence of both renewable energy investment goals and fossil fuel divestment policies. Interestingly,

[135] In 2015, Aviva pledged to invest Pound 500 million annually in renewably energy infrastructure, for at least the 5 subsequent years, see: Aviva, '*Aviva's Climate-Related Financial Disclosure 2018'* (2018), p. 7.
[136] See table 3.

Prudential does not have any environmental CSR-policy in place, which in itself is an indication of limited environmental concern.

Overall, this signals once again that financial institutions (although not many) are able to take positions that clearly deviate from their direct financial interests and therefore seem to be able to incorporate environmental sustainability considerations in their decisions, although the picture is less clear than with Allianz, Aegon and Munich Re in the previous section. This MSSD-research does once again provide credibility to my proposal to study CSR-CPA misalignment as an outcome variable to analyse a financial institution's ability to incorporate non-financial considerations in its corporate policy (complemented by the observation that absence of CSR-policy signals an inability to do so). Once again, there seems to be little correlation with ownership structure, signalling provisional rejection of hypothesis 3.

5.1.3. Banks

This section will compare the Danske Bank (Denmark), reflecting the lowest degree of CSR-CPA misalignment, with the Nykredit Bank (also Dennark) and DNB ASA (Norway). There are no peculiarities regarding the empirical data, apart from the ones discussed in the introduction to chapter 5.

Table 7

	Group	CSR-CPA-misalignment	Climate change as financial risk	Fossil fuel investments	Renewable energy investments	Specific remarks concerning ownership
Dankse Bank	1	1	no	0,0[137]	0,24[138]	20% owned by societal investor[139]
Nykredit	2	3	no	0,0[140]	N.A.	Cooperative ownership[141]
DNB ASA	3	8	no	3,15[142]	N.A.	Large institutional ownership and largely state-owned[143]

[137] FinanceMap, 'Danske Bank Group', last visited July 28 2022, https://financemap.org/financialgroup/DANSKE-BANK-GROUP.
[138] The Dankse Band has issues DKK 3 billion for renewably energy infrastructure projects, see: Danske Bank, 'Corporate Responsibility 2019', p. 32; Wall Street Journal Markets, 'Danske Bank A/S', last visited July 28 2022, https://www.wsj.com/market-data/quotes/DK/XCSE/DANSKE/financials/annual/balance-sheet.
[139] The 10 largest shareholders of Dankse Bank hold over 30% of the company, the biggest of which is A.P. Møller Holding A/S (21%), a societal investor; Marketscreener, 'Danske Bank A/S (DANSKE), last visited July 28 2022, https://www.marketscreener.com/quote/stock/DANSKE-BANK-A-S-1412871/company/.
[140] FinanceMap, 'Nykredit', last visited July 28 2022, https://financemap.org/financialgroup/NYKREDIT-9ecabb20-5c55-4f4f-a1cb-4f68cb8b3a5b.
[141] Nykredit is owned for almost 80 percent by Forenet Kredit, a cooperative bank, see: Forenet Kredit, 'About Forenet Kredit', last visited July 28 2022, https://forenetkredit.com/about-forenet-kredit/.
[142] FinanceMap, 'DNB Group', last visited July 29 2022, https://financemap.org/financialgroup/DNB-GROUP.
[143] DNB ASA is owned for about 60% by its 10 largest shareholders, for 34% by the Norwegian state, see: Marketscreener, 'DNB ASA', last visited July 28 2022, https://www.marketscreener.com/quote/stock/DNB-ASA-1413122/company/.

Analysis

The Danske Bank has consistently lobbied for a stringent, effective and science based EU Taxonomy, complemented by a 'brown' taxonomy. Of course, the Dankse Bank's investment portfolio is practically non-exposed to fossil fuel activities, so a 'brown' taxonomy would make Danske Bank stand out favourably compared to its competitors. However, this non-exposure to fossil fuel investments is likely a result of its divestment policies and therefore signals environmental concern.[144]

Danske Bank only has limited renewably energy investments, but these are seemingly higher than its competitors. In that sense, a strict and rigid EU Taxonomy would reflect relatively favourably upon Danske Bank. Remind that Danske Bank has no specific renewably energy investment policies in place, so this relatively high percentage of renewable energy investments is not the result of deliberate sustainability policy. This signals a prevalence of financial, rather than environmental considerations. Overall, Danske Bank is not very conclusively able to deviate from its direct financial interests, but is non-exposure to fossil fuel investments, combined with the presence of fossil fuel divestment policies, do signal an extent of genuine environmental concern (albeit not as conclusively as for the insurance companies with least CSR-CPA misalignment).

As for Nykredit, its opposition to the establishment of a 'brown' taxonomy is seemingly quite remarkable, as it has practically no financial engagement in fossil fuel activities. However, Nykredit is a cooperative bank and the largest agricultural credit provider in Denmark.[145] Although agricultural investments are not incorporated in this research as a proxy for environmentally unsustainable investment, it is no secret that agriculture is being increasingly critically perceived as detrimental to environmental sustainability.[146] Consequently, this position could be well-explicable taking into account Nykredit's direct financial interests. At the same time, it has engaged in CPA with the aim of establishing a strict and science-based EU Taxonomy, whereas this would not be in its direct interest, given its limited renewable energy investments.

[144] See table 3.
[145] Nykredit, 'Sustainable Agriculture', last visited August 2 2022, https://www.nykredit.com/en-gb/samfundsansvar/sustainable-development/sustainable-agriculture/.
[146] See for example: Worldbank, 'Climate-smart agriculture', last visited August 2 2022, Nykredit, 'Sustainable Agriculture', last visited August 2 2022, https://www.worldbank.org/en/topic/climate-smart-agriculture#:~:text=Agriculture%20is%20a%20major%20part,is%20either%20lost%20or%20wasted.

In the case of banks, consequently, low CSR-CPA misalignment does not conclusively indicate the ability to fully deviate from direct financial interests and incorporate environmental sustainability considerations. Still, medium and low CSR-CPA misalignment do indicate environmental concern to a certain extent.

As for DNB ASA the picture is once again clear: compared to the other banks, its fossil fuel exposure is extremely high and it consequently opposed the establishment of a 'brown' taxonomy. Based on its non-reporting of renewable energy investments, these are likely low, and DNB consequently opposed a strict and science-based EU Taxonomy. It does not consider climate change as a financial risk, so also from that perspective its CPA is fully aligned with its financial interests.

Once again, these observations entail that the variance in CSR-CPA misalignment cannot be completely explained by the monolithic approach to finance. Moreover, also the different degrees of CSR-CPA misalignment seem to be relevant. Dankse Bank and Nykredit differ limitedly in the incorporation of environmental concerns in their decision, which is reflected in the limited differences of their CSR-CPA misalignment scores. DNB ASA, on the other hand, is clearly and indisputably unable to incorporate non-financial considerations in its decisions, which is signalled by a very high misalignment score of 8. Consequently, the observation that high CSR-CPA misalignment signals unwillingness to deviate from financial interests and incorporate environmental consideration in decisions, still holds.

In terms of ownership, all banks have distinct ownership structures and it is interesting that Dankse Bank is largely owned by an institutional investor that is also non-financially driven and that Nykredit is cooperative in nature. This gives some provisional credibility to hypothesis 3 (at least does not definitely reject it).

5.1.4. Asset managers

Table 8

	Group	CSR-CPA-misalignment	Climate change as financial risk	Fossil fuel investments	Renewable energy investments	Specific remarks concerning ownership
Invesco	1	--	no	0,93[147]	N.A.[148]	Large institutional ownership[149]
T. Rowe Price	2	---	yes[150]	1,06[151]	N.A.	Relatively limited[152]
Franklin Templeton	3	---	no	1,54[153]	N.A.	Relatively limited[154]

Analysis

The MSSD-approach for investment funds is quite interesting on a number of counts. Firstly and strikingly, all investment fonds have no publicly expressed CSR-preferences or policy (including Invesco, that has consistently engaged in CPA aimed at a rigid and science-based Taxonomy complemented with a 'brown' taxonomy). Their annual reports and sustainability reports do not even refer to the Paris climate agreement (or any other climate agreement of

[147] FinanceMap, 'Invesco', last visited July 28 2022, https://financemap.org/financialgroup/Invesco-8f0a3f2fac66711150d55e0e7a99b5f7-7134624.
[148] Invesco is the only one of the investment funds that does reports on the value of separate funds that invest solely in clean energy, worth Dollar 2,1 Billion, see: Invesco, '*Invesco 2018 Investment Stewardship and Proxy Voting Annual Report. Our commitment to responsible investing'* (2018), p. 11.
[149] Invesco is owned for more than 50% by its 10 largest shareholders, see: CNN Business, 'Invesco Ltd', last visited July 28 2022, https://money.cnn.com/quote/shareholders/shareholders.html?symb=IVZ&subView=institutional.
[150] T. Rowe Price, '*Strategic investing. Annual report 2018*' (2018), p. 14.
[151] FinanceMap, 'T. Rowe Price', last visited July 28 2022, https://financemap.org/financialgroup/T-ROWE-PRICE.
[152] T. Rowe Price is owned for roughly 30% by its 10 largest shareholders, 8,47% of which is owned by the VanGuard Group, see: CNN Business, 'T Rowe Price Group Inc', last visited July 28 2022, https://troweprice.gcs-web.com/static-files/0dc7ac11-d498-4125-9b6f-5b53be108359.
[153] FinanceMap, 'Franklin Templeton', last visited July 28 2022, https://financemap.org/financialgroup/FRANKLIN-TEMPLETON.
[154] Franklin Templeton is owned for roughly 25% by its 10 largest shareholders, 6,58% of which is owned by the VanGuard Group; CNN Business, 'Franklin Resources Inc', last visited July 28 2022, https://money.cnn.com/quote/shareholders/shareholders.html?symb=BEN&subView=institutional.

the sort). Consequently, there is no actual CSR-CPA misalignment to be studied, although the fact that these financial institutions have no CSR-policy in place, seems to be an indication that their ability to incorporate environmental sustainability considerations in their decisions, is limited.

Invesco, as mentioned, has engaged in environmentally sustainable CPA regarding the EU Taxonomy. However, the picture stemming from the MSSD-analysis is that this position is attributable to purely financial considerations. Invesco has quite substantial fossil fuel investment exposure, but lower than the other asset managers. Also, despite its fossil fuel investments, a 'brown' taxonomy would reflect relatively well on Invesco. The absence of fossil fuel divestment policies, moreover, signals that this relatively low fossil fuel investment exposure, cannot be attributed to general environmental concerns.[155]
As for Invesco's renewable energy investments, Invesco does not report on these investments, but it is the only asset manager that does report on the value of its main renewable investment fund, indicating that Invesco might have a little more to show for than other asset managers (again: this would mean a strict and science-based EU Taxonomy would reflect favourably on Invesco). Moreover, their relatively environmental sustainability-concerned CPA is aligned with their perception of climate change as a financial risk to their business operations.

Strikingly, lower CPA scores directly translate into higher fossil fuel investments. As regarding T. Rowe Price, its opposition to the 'brown' taxonomy can be explained due to the fact that such a taxonomy would not reflect particularly favourably upon T. Rowe Price. It did support a strict and science-based Taxonomy, although it has seemingly relatively few renewable energy investments. However, as all asset managers have relatively few renewable energy investments, there is also limited competitive disadvantage. Moreover, the support for a strict and science-based Taxonomy is aligned with its perception of climate change as a financial risk. However, it is clear that T. Rowe Price lies in a somewhat grey zone regarding its CPA activities, in which its CPA engagement cannot be as clearly explained by its company profile as Invesco and Franklin Templeton.

Franklin Templeton has the highest fossil fuel exposure of its investment portfolio, clearly explaining its opposition to the establishment of a 'brown' taxonomy. Its seemingly

[155] See table 3.

low renewably energy investments can explain its resistance to a rigid and science-based Taxonomy. Mind that Franklin Templeton also does not perceive climate change as a financial risk, so also from that perspective its non-environmentally concerned CPA is explicable purely by financial concerns. Overall, the study of asset managers seems to provide tentative evidence for the confirmation of hypothesis 1, derived from the monolithic approach for finance. There seems to be no specific relevance of ownership structure, providing preliminary rejection of hypothesis 3.

The concept of CSR-CPA misalignment again proves a useful concept, in the sense that an absence of CSR altogether is an indication of an inability on part of financial institutions to implement non-financial considerations in their decision-making. However, the study of asset managers also signals that seemingly sustainability-concerned CPA does not necessarily reflect genuine environmental sustainability concerns. Of course, it is theoretically possible that the relatively low fossil fuel exposure of Invesco is due to a sincere climate commitment, rather than that it is the primary reason to support a certain policy. However, if their relatively limited fossil fuel exposure was due to genuine concern for the environment and the result of deliberative policy, this would definitely have been reflected in CSR-preferences or policy. This, obviously, is not the case and underlines the importance of studying CSR, as the way in which a company engages in CSR is important for the interpretation of the CPA. The two concepts are analytically mutually dependent.

5.2. Outcome of the MSSD-research

Chapter 5 so far provided quite a lot of empirical information to process. Based on the outcomes of the MSSD-approach, I will now reflect on the most important findings, how they relate to the hypotheses and discuss the implications of the findings for the study of the different subsectors. I will first reflect on the introduction of CSR-CPA misalignment in literature on Corporate Political Finance and its applicability as an outcome variable. I will then discuss the implications of the MSSD-research for the hypotheses derived from the literary framework.

5.2.1. The introduction of CSR-CPA misalignment as outcome variable in Corporate Political Finance

Firstly, this MSSD-approach has quite clearly shown that the study of CSR-CPA misalignment in the context of the EU Taxonomy for Sustainable Activities is an effective outcome variable to assess the extent to which financial institutions are able to incorporate non-financial (in this case: environmental sustainability) concerns in their decisions.

i. Of the 3 companies in scope with full CSR-CPA alignment (for Invesco, no CSR-CPA misalignment could be established, as it did not have CSR-preferences), 2 were consistently and fully able to deviate from their direct financial interests, by supporting policy from which they would not directly benefit. Danske Bank showed partial ability to deviate from financial interests and embrace environmental concerns. The study of Invesco shows that the mapping of CSR-preferences is necessary for a good interpretation of a company's CPA and therefore also substantiates the importance of the concept of CSR-CPA misalignment.

ii. Perhaps even more importantly, high CSR-CPA misalignment scores (as well as absence of CSR-policy) always signal an ability to incorporate non-financial considerations in decision-making. The companies with the highest misalignment scores, always had clear financial incentives explaining their opposition to a strict and science-based Taxonomy supplemented with a 'brown' taxonomy. Recall that a vast majority of the 150 financial institutions in scope of this research falls within the third group with high misalignment scores, indicating that the majority of financial institutions is not able to embrace environmental sustainability considerations in their decisions. At the same time, these observations also substantiate the importance of the concept of CSR-CPA misalignment. Some of the companies that engaged in environmentally unsustainable CPA, did in fact have elaborate CSR-policies and preferences (and vice versa). Again, this shows that studying CSR in relationship with CPA is conditional for a good interpretation of a company's CSR-preferences and CPA.

iii. Whereas full CSR-CPA alignment generally signals an ability to incorporate non-financial considerations and full CSR-CPA misalignment consistently shows an inability to do so, the study of companies with medium misalignment shows a mixed picture. Aegon seemed truly able to deviate from its direct financial interests, albeit not to the extent of Allianz, whereas Legal & General and Nykredit were only partially or less convincingly able to deviate from their direct financial interests. This does in itself provide credibility to the study of CSR-CPA misalignment as outcome variable to asess financial institution's ability to incorporate non-financial considerations in decision-making (companies with medium alignment scores are limitedly able to do so), but at the same time the findings are not as conclusive as in the other cases. This basically means that for the study of financial institutions with medium misalignment scores, one cannot fully rely on the misalignment scores alone to get a grasp of their genuine concern about environmental considerations.

This MSSD-research using proxy variables consequently shows that studying CSR-CPA misalignment could be an useful concept in the literature on Corporate Political Finance. This research has also shown that the study of CSR-CPA misalignment, derived from literature on Political Corporate Social Responsibility, is applicable in the financial sector as well and that the conceptual contribution I made, by incorporating business associations in the study of the CSR-CPA misalignment of individual companies, has proven useful. Lastly, this research has conclusively shown that combining insights from Corporate Political Finance and Political Corporate Social Responsibility, provides an academic synarchy, as incorporating CSR-CPA misalignment in the study of Corporate Political Finance fills substantial methodological lacunae.

5.2.2. Reflections on the hypotheses

Considering that a vast majority of the 150 financial institutions in scope has full CSR-CPA misalignment (or they may have no CSR-policy at all, as in the case of the asset managers and Prudential Plc), the sad conclusion of this research is that the ability and willingness to

incorporate non-financial consideration in decisions is the exception, rather than the rule in the financial sector. Only two companies, Allianz and Aviva, are consistently able to adjust their CPA to genuine environmental concerns, thereby deviating from purely financial interests. Tens of companies with medium misalignment scores, based on the study of companies in the MSSD-approach, are likely only able to do so to a limited extent.

However, these observations do reject the notions embedded in the monolithic approach to finance, that inability to pursue non-financial interest at all is intrinsic to the financial sector. On the other hand, it must be said that the cynical notions embedded within the monolithic approach to finance hold to a great extent; and is seems true that variance in CSR-CPA misalignment is indeed exclusively driven by financial interests, as far as group 3 companies are concerned. Moreover, as far as asset managers are concerned: it is impossible to construct CSR-CPA misalignment scores for these institutions, but they have proven unable to incorporate non-financial considerations in their corporate decisions. Although this technically means that the hypothesis cannot be confirmed, the theory behind it can be confirmed for asset managers. Overall this means that:

H1: Variance in CSR-CPA misalignment among financial institutions is driven exclusively by financial interests

Is rejected for banks and insurance companies, but confirmed for asset managers. Linking back to the monolithic approach to finance, this means that asset managers in general and a majority of banks and insurance companies suffer from an intrinsic short-sightedness and financial focus that makes them intrinsically unable to incorporate environmental considerations in their decisions.

The distinctions established between banks and insurance companies provide credibility to the second hypothesis. Principal-agent theory predicted that the nature of the services and clients would result in lower CSR-CPA misalignment scores for banks and insurance companies, and probably more so for insurance companies. Moreover, principal-agent-theory predicted that the variance in CSR-CPA misalignment would have little correlation with investment portfolios, because financial institutions are only limitedly able to translate their environmental concerns, if present, in investment decisions. Overall, the notions embedded within this hypothesis seem to hold largely. The only financial

institutions with full CSR-CPA alignment scores are one bank and two insurance companies. More in-depth analysis shows that only the insurance companies are fully and consistently able to incorporate environmental considerations at the expense of their financial interests. Nonetheless, the Danske is still better able to incorporate environmental concerns in its decisions, than the asset managers. These observations are in line with principal-agent theory, because of the stronger non-financial preferences of insurance companies' beneficiaries.

Of the group 2 financial institutions, it is another insurance company, Aegon, that is best able to deviate from its direct financial interests. Nykredit and Legal & General are only partially able to do so, which is still significantly more than the asset managers in scope. Moreover, Munich Re, clearly unable to deviate from direct financial interests, is not a normal insurance company, but a reinsurer with other financial institutions as clients. Its inability to incorporate non-financial considerations is therefore still in line with principal-agent theory.

Regarding the relationship between the variance in CSR-CPA misalignment and the investment portfolios: among group 1, there seems to be some correlation between CSR-CPA misalignment and the investment portfolios of the respective companies. Aviva, Allianz and Danske Bank all have low degrees of CSR-CPA misalignment and relatively high levels of renewably energy investments. However, as for Allianz and Aviva are concerned: these companies also have fossil fuel investment portfolios that are significantly higher than their competitors, so their environmental concerns have conclusively not been able to fundamentally transform their investment portfolios. The renewable energy investments of Danske Bank are relatively high compared to its competitors, but still not substantial. Moreover, it seems that this relatively high share of renewable energy investments is not the result of deliberate environmental policy (which would be misaligned with principal-agent theory), but mere coincidental.

As far as the other companies in scope are concerned, there is little relationship discernible between CSR-CPA misalignment and renewable energy investments. Prudential Plc (group 3) does have lower renewable energy investments than Legal & General (group 2), but those of Aegon (Group 2) are smaller than those of Munich Re (Group 3). Nykredit's (Group 2) renewable energy investments are small, just as those of DNB ASA (Group 3).

As far as fossil fuel investments are concerned: there is hardly any relationship discernible between CSR-CPA misalignment and fossil fuel investments for insurance companies, but the picture is slightly more nuanced for banks. Danske Bank seems to have been able to reduce its fossil fuel investment portfolio due to divestment policy and its investment portfolio is clearly less fossil fuel-dependent than DNB ASA. This does mean that CSR-CPA misalignment remains a good outcome variable to assess the extent to which financial institutions are able to incorporate environmental concerns in their decisions, but that one of the empirical expectations embedded in principal-agent theory cannot be established conclusively for banks. That is: at least Danske bank does seem to be able to proactively make investment decisions based on the environmental concerns of its beneficiaries, in clear contrast to its competitors. Societally, this is actually a positive finding, as it provides a tentative indication that banks can to some extent, and without political interference, adjust their investment decisions to the environmental preferences of their beneficiaries.

Of course, the MSSD-research for asset managers shows a distinctive relationship between CPA-scores and investment portfolios (more environmentally concerned CPA is related to fewer fossil fuel investments). However, as observed, this is not a result of the deliberate incorporation of environmental concerns. This finding is therefore not at odds with principal-agent theory, which only predicts that genuine environmental concerns cannot easily be translated in investment decisions (it does of course not suggest that investment portfolios cannot diverge at all).

The emerging picture remains that there is relatively little relationship between CSR-CPA misalignment and the nature of investment portfolios. This lack of relationship is especially strong for insurance companies and generally holds for most financial institution in scope of this research. Overall, it seems that insurance companies and banks have lower CSR-CPA misalignment than asset managers; that insurance companies in particular are able to deviate from their direct financial interests, banks to a certain extent, and asset managers not at all; and that there is only a limited relationship between CSR-CPA misalignment and investment portfolios. This means that:

H2: Variance in CSR-CPA misalignment among financial institutions depends on the nature of the financial services they offer

Can be confirmed, with the remark that one of the empirical expectations deriving from this hypothesis cannot be conclusively established for banks.

Of course, notwithstanding these results, there is still a majority if the insurance companies and banks unable and/or unwilling to incorporate environmental sustainability concerns. However, the fact that banks and insurance companies are the only financial institutions with low and medium CSR-CPA misalignment and full CSR-CPA alignment scores, does indicate that the nature of their companies and their clients allows them to better incorporate non-financial considerations, although the causal mechanism is not unconditional. In line with expectations, this hypothesis is confirmed specifically and very strongly for insurance companies, that have beneficiaries, by their very nature, with the weakest financial preferences. This strongly supports the causal mechanism of principal-agent theory, that the social preferences of the beneficiaries of financial institutions affect the incorporation of financial consideration in the decisions of the financial institutions.

As far as hypothesis 3 is concerned, there seems to be little empirical evidence to confirm this hypothesis based on principal-agent theory. Large and limited institutional ownership seems to be more or less randomly associated with CSR-CPA misalignment scores. Of course, the Danske Bank, one of the three companies in scope with full CSR-CPA alignment, is largely owned by an ethical investor and Aegon is largely owned by its employees association, that also has broader preferences than purely financial ones. Such ownership structures are not identifiable among financial institutions with high misalignment scores unable to depart from their direct financial interests. On the other hand, both Aviva and Allianz do not have such ownership structures, so it definitely is not a precondition for financial institutions to pursue environmentally concerned CPA. Overall, there is some tentative evidence based on this MSSD-approach that very specific ownership structures may enable financial institutions to embrace to a greater extent non-financial considerations, because that is valued by their owners. However, the share of institutional ownership itself seems to have relatively little relationship with CSR-CPA misalignment. Overall this means that:

H3: the extent of CSR-CPA-misalignment is dependent on the share of institutional ownership of a financial institution

Can be rejected, but further research into the impact of more specific ownership structures on CSR-CPA misalignment in light of principal-agent theory may be useful in the future.

As for the last hypothesis, there seems to be limited empirical foundation for the causal mechanisms embedded in the financial logic school. Simple statistical evidence indicates that the financial industries in Germany, UK and Denmark (the home countries of the only financial institutions with full CSR-CPA alignment) are relatively big compared to the European average. According to the financial logic school, this would indicate a relatively high prevalence of financial logic, resulting in less concern for other, non-financial welfare indicators. This is clearly not the case, as Denmark, UK and Germany are the only countries home to financial institutions with full CSR-CPA alignment that are able to (partially) deviate from their direct financial interests.[156] Moreover, the fact that these countries are also home to a substantial number of group 3 financial institutions (see appendix), indicates that the prevalence of financial logic is not at all an explanatory factor for variance in CSR-CPA misalignment. Lastly, this observation also indicates that a *low* prevalence of financial logic in society is not conditional for financial institutions to be able to incorporate environmental considerations in their decisions.

However, it is remarkable that the financial sector employment is substantially higher in the United States , the home country to the asset managers in scope of the research, that have uniformly been unable to deviate from their financial interests (4,3%).[157] In that vein, it is also interesting that a country as Switzerland (with 11 insurance companies and banks in the two top 50 lists, 9 of which are in group 3) also has a substantially higher prevalence of financial logic (4,8%).[158] This does suggest that there is a weak relationship between prevalence of financial logic in society and CSR-CPA misalignment, but only if that financial logic is substantially higher in a certain home country.

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[156] For this brief analysis I used 2018 labour market statistics provided by the Organisation for Economic Co-operation and Development (OECD). I calculated the share of people employed in 'financial and insurance activities' as a percentage of the economically active population. The financial sector employment percentages are as follows: UK (3,24), Denmark (2,67), Germany (2,48), EU (2,3), see: OECD, 'OECD.Stat. Population and employment by main activity', last visited July 30 2022, https://stats.oecd.org/Index.aspx?DataSetCode=SNA_TABLE3.

[157] For the US financial sector employment, I used 2012 data, as the OECD did not report on the economically active population in the US after 2012. However, as can be derived from the table, financial sector employment in the US has increased significantly ever since (in absolute number). So, if anything, 4,3% probably is a rather low estimate of 2018 financial sector employment, see: OECD, 'OECD.Stat', last visited July 31 2022.

[158] OECD, 'OECD.Stat', last visited July 31 2022.

H4: variance in CSR-CPA misalignment among financial institutions is related to the prevalence of financial logic in the home country of the financial institutions

Can be largely rejected. Interestingly, it seems that, generally speaking, the biggest insurance companies and banks (in the highest segments of the top 50) are significantly more often in group 1 and 2, signalling limited and medium CSR-CPA misalignment. In this research, I assumed that the size of the financial assets would not have a significant effect on the variance in CSR-CPA misalignment, as all financial institutions in scope are top 50 institutions. This assumption does not seem to hold completely. In line with the financial logic school of finance, it may be that the biggest financial institutions are more in public sight and under public scrutiny than the 'smallest' biggest financial institutions. Consequently, they may feel more responsive to society at large than smaller financial institutions, that do not catch the eyes of public and politics to that extent. This observation provides tentative evidence for a relationship between the size of a financial institutions and its responsiveness to non-financial, societal preferences (and consequently, CSR-CPA misalignment). Consequently, size of the financial institutions might be a relevant factor explaining variance in CSR-CPA misalignment, rather than home country.

The general conclusion is that the monolithic approach to finance largely holds, at any rate for asset managers, but that there are interesting correlations to be identified among the financial institutions with low and medium CSR-CPA misalignment scores that are able to deviate from their direct financial interest and incorporate environmental considerations in their decisions. Especially the mechanisms embedded in principal-agent theory regarding the beneficiaries of the financial institutions seem to hold, most strongly for insurance companies. The implications of the confirmations or rejection of the different hypotheses for the expected effectivity of the EU Taxonomy, as well as for future policy in general, will be reflected on in the conclusion.

5.3. Reflections on validity and reliability

This research has hopefully shed light on the variance between financial institution with high, medium and low levels of CSR-CPA misalignment in the context of the EU Taxonomy for Sustainable Activities. As the EU Taxonomy is a fundamental piece of legislation that is important for the future development of sustainable finance policy, the findings as to what companies are able, and to what extent, to incorporate non-financial considerations in their corporate policy, will be quite well generalisable for the incorporation of environmental concerns by the financial sector. Given the importance of the EU Taxonomy, it is unlikely that financial institutions that are generally concerned about environmental sustainability will have abstained from any engagement.

Of course, the findings regarding CSR-CPA misalignment in the context of the EU Taxonomy, do not necessarily tell us if, and under what conditions, financial institutions are (not) able to incorporate other societal concerns. However, generally speaking, the findings of this research are relevant to the main questions, that is if financial institutions are able to incorporate societal concerns in their decisions (especially concerning environmental sustainability) and what drives their ability to do so.

This research is limited in scope, in the sense that it only conducts in-depth analysis for 12 financial institutions. For definite confirmation of the applicability of CSR-CPA misalignment as outcome variable to answer the general research question, one would have to apply the case study to all 150 financial institutions in scope. Nonetheless, following from the MSSD-research, the emerging picture is clear: CSR-CPA misalignment is an effective outcome variable.

The fact that I use proxy variables to examine the extent to which financial institutions deviate from their direct financial interests, may distort the findings. Generally, as can be derived from the MSSD-research, the proxy variables are quite useful to construct logical relationships between CSR-CPA misalignment and the hypotheses. Unfortunately, they are not perfect, as is demonstrated by the case-analysis of the Nykredit bank.

As for the analysis of the ownership structure, I also deploy a proxy variable for institutional ownership (share of company owned by the 10 biggest shareholders), that is also historically inaccurate. This may of course have distorted findings about the relationship between ownership structure and CSR-CPA misalignment. However, there is so

little relationship discernible between ownership structure and CSR-CPA misalignment, that it is unlikely that findings would have changed due to a more extensive and accurate ownership measure.

Lastly, the interpretations of the findings in this research could be distorted by reversed causality. If I find for example, that a financial institution has low fossil fuel investments, I derive therefrom that support for a 'brown' taxonomy is in its financial interests and does not derive from genuine environmental concern. However, low fossil fuel investments could also be the result of proactive sustainability policy. To mitigate these problems, I incorporate my findings regarding the presence of divestment policies and renewably energy investment targets. The presence of such policies will indicate whether low/high renewably energy/fossil fuel investments are results of deliberate policy or just 'coincidental' characteristics of the investment portfolio. This once again underlines the importance of the study of CSR-CPA misalignment in a symbiotic way, rather than the separate concepts.

Overall, the findings will be reliable for the extent to which major financial institutions are able to incorporate environmental sustainability concerns in their decisions and valid, at least to the extent that the relationship between the proxy measures and CSR-CPA misalignment is examined.

6. Conclusion

The EU Taxonomy for Sustainable Activities may greatly impact the very fabric of the European finance industry and initiate the grand-scale reallocation of financial resources to a Paris Climate Agreement-aligned economy. The success and effectivity of the EU Taxonomy, to fundamentally transform the financial sector, is dependent on the nature of the financial institutions themselves. If financial institutions are willing and able to incorporate environmental concerns in their decisions, the EU Taxonomy will help them allocating their resources in the most effective way. Moreover, the EU Taxonomy will then speed-up sustainable investment, because financial institutions will be able to effectively compete with each other on the environmental sustainability of their investments, rather than just return-on-investments. If, on the other hand, financial institutions are intrinsically unable to consider environmental concerns, the EU Taxonomy will not lead to a sincere

transformation of the financial sector. The financial sector then follows only the path of the greatest profit. In that case, considering the enormous financial challenge involved in the energy transition, more restrictive and prescriptive EU policy must be implemented in order to allocate financial resources in the most environmentally sustainable way.

Focussing on the EU Taxonomy, this research aimed to examine to what extent financial institutions are able to incorporate environmental sustainability concerns in their decisions, and what are the mechanisms explaining this ability. In absence of sufficient quantitative data, I have introduced the qualitative concept of CSR-CPA misalignment in the policy process of the EU Taxonomy, to study the research question. If companies seemingly embrace environmental policy, while at the same time lobbying for regulation to the opposite effect, this is a strong indication that their commitment to environmental sustainability does not stem from sincere societal concerns. This combination of CSR-CPA misalignment and Corporate Political Finance literature is an addition to the current discourse and attempts to overcome methodological challenges currently omnipresent in Corporate Political Finance.

My study of CPA of financial institutions in the context of the EU Taxonomy, taking into account business association of financial institutions as well, has shown that a majority of the financial institutions, mainly through their respective business associations, have engaged in environmentally unsustainable CPA aimed at weakening the EU Taxonomy for Sustainable Activities (group 3). It also found that only 4 financial institutions, through membership of specific sustainable finance business associations and explicit support for the establishment of a 'brown' taxonomy for environmentally unsustainable activities, have consistently supported an environmentally sustainable and effective Taxonomy (group 1). Some tens of financial institutions have partially engaged in CPA in a sustainable way, by supporting an environmentally sensible EU Taxonomy, but opposing the establishment of a 'brown' taxonomy (group 2)

In a MSSD-research, I have compared the 4 group 1 financial institutions with group 2 and 3 financial institutions of the same subsector and from the same or comparable countries. I have been able to construct for each company in scope not only its degree of CSR-CPA misalignment, but also the extent to which its CPA was engaged with its financial interests. The findings were academically relevant: CSR-CPA misalignment is a useful outcome variable to answer the research question, derived from Corporate Political

Finance, about the extent to which financial institutions are able to incorporate non-financial considerations in their decisions and deviate from their direct financial interests. All insurance companies with low CSR-CPA misalignment were consistently able to deviate from their direct financial interests. For banks, the picture was less conclusive, with low and medium CSR-CPA misalignment both signalling only partial ability to deviate from financial interests and incorporate environmental concerns. Importantly, companies with the highest misalignment scores were consistently unable to do so; and financial institutions with medium misalignment scores were consistently partially unable to do so. Absence of CSR-policy, formally leading to no assignment of a misalignment score, always signalled non-prevalence of environmental concerns in corporate policy.

This finding about the effectivity of the outcome variable I have introduced to Corporate Political Finance literature is a contribution to this school of literature. As mentioned, this literature has struggled with examining its research questions empirically, for various reasons concerning data limitations. Ideally, one would answer the research question of the ability and willingness of financial institutions to incorporate environmental concerns in their decisions with quantitative data on (the development of) the sustainability of their investment portfolios. Due to the new Taxonomy, it may be possible to conclude research of this kind better in the future, but it is currently hardly possible. With my research on CSR-CPA misalignment, however, I have shown that this qualitative outcome variable is an effective substitute in the absence of quantitative data on sustainability of investments. However, more in-depth research may sometimes be desirable to examine exactly to what extent CSR-CPA misalignment reflects an ability to deviate from financial interests.

Even in the future, as there will be more uniform quantitative information available, it may be hard to assess to what extent investment decisions are the result of genuine environmental concerns, or rather a reaction to the public exposure of investment portfolios (and therefore stemming from reputational, rather than genuine environmental concerns). Combining quantitative analysis of investment portfolios with CSR-CPA analysis, on any future sustainable finance issue, may then shed better light on the (qualitative) question about the extent to which financial institutions are genuinely able to incorporate environmental concerns in their decisions. Moreover, CSR-CPA misalignment analysis could

be a very useful outcome variable to research this question in regions that have not (yet) implemented a taxonomy for sustainable activities.

Based on my research on CSR-CPA misalignment in the context of the EU Taxonomy fur Sustainable Activities, I have also been able to make inferences about the causal mechanisms behind the variance in CSR-CPA misalignment across financial institutions.

Firstly, the cynical conclusion is that only a minority of all major financial institutions in scope have medium or low degrees of CSR-CPA misalignment (and have consequently proven able to incorporate, albeit the different extents, environmental concerns in their decisions). Most financial institutions have high misalignment degrees, signalling no environmental concern. Most strikingly, asset managers, even when they engaged in seemingly environmentally concerned CPA, were in no case able to deviate from their direct financial interests. This meant that the monolithic approach to finance holds for asset managers, but not for insurance companies and banks (after all, the monolithic approach to finance holds that financial institutions are universally unable to incorporate non-financial considerations).

As it has been observed that banks and especially insurance companies are better able to embrace environmental concerns than asset managers, this has given credibility to hypothesis 2 derived from the principal-agent approach to finance. Banks and insurance companies have beneficiaries that have societal, besides financial preferences and the financial institutions (the principals) act accordingly. The principal-agent mechanism is explicitly substantiated by the fact that CSR-CPA misalignment scores seemed to have limited relationship with investment portfolios: the financial institutions, as a rule, have not been able to translate the desire of their clients into actual investments (at least not to a substantial degree), because they have not been able to compete on the environmental sustainability of their investments. Allianz and Aviva do have relatively high renewably energy investments, but these go hand in hand with relatively high fossil fuel investments. This empirical expectation could not have been fully established for banks, as it seems that Danske Bank has been able to proactively and independently reduce its fossil fuel investments. This is only 1 out of 50 banks in scope of course, but is does indicate that the principal-agent causal mechanism is not absolute.

At the same time, I have found no empirical evidence for hypothesis 3, also derived from principal-agent theory, which suggested a relationship between CSR-CPA misalignment and the level of institutional ownership of a company.

Hypothesis 4 can be largely rejected, based on the observation that the prevalence of financial logic in the home countries of the financial institutions with the smallest CSR-CPA misalignment is relatively large, rather than smaller. There is, however, some first tentative evidence that substantially higher prevalence of financial logic might indeed affect corporations' ability to incorporate non-financial considerations in their decisions. Moreover, it does seems from the empirical evidence that the absolutely biggest financial institutions have more often medium and limited degrees of CSR-CPA misalignment, indicating that bigger financial institutions could be more responsive to society at large.

The confirmation of the principal-agent school of literature, establishing a relationship between the direct beneficiaries of financial institutions, the incorporation of environmental concerns in the decisions of the financial institutions and CSR-CPA misalignment, is promising. It means that sustainability-concerned citizens are in fact able to steer the decisions of financial institutions and, in this way, are able to contribute to the transformation to an environmentally sustainable economy.

However, for each financial institution that embraces environmental concerns, there are plenty of other comparable financial institutions that refrain from any incorporation of such concerns in their decisions. This research has provided confirmation of one causal mechanisms, but it is my impression that other factors must also be at play, that together decide why one institution pursues environmentally sustainable corporate policy and CPA, and another does not. Consequently, future research might also focus on very individual characteristics of different financial institutions, taking into account 'soft' indicators, such as, but not limited to, the role of ideas in organisations, inspirational leadership and employment structure.

In terms of future research, I would be specifically interested to see if the financial institutions that are identified in this research as having low degrees of CSR-CPA misalignment will a) reduce their fossil fuel investment portfolio quicker than their competitors with higher CSR-CPA misalignment scores and/or b) increase their environmentally sustainable investment portfolio quicker than these competitors. Research of this kind could substantiate my conclusion that CSR-CPA misalignment is a useful

outcome variable for studying financial institutions' willingness and ability to incorporate environmental concerns. As mentioned, I also believe that the combination of quantitative research on investment decisions with qualitative research on CSR-CPA misalignment would be very useful to conclusively answer this research questions.

In this research, no relationship is established between ownership structure (share of institutional ownership) and CSR-CPA misalignment. It might, however, be interesting to analyse more in-depth if there is a relationship identifiable between the corporate policies of the largest shareholders and CSR-CPA misalignment. Regardless of their size, some large shareholders may be more environmentally concerned than others (after all, this research has established that there is variance between financial institutions regarding the extent to which they are able to incorporate environmental sustainability considerations in their decisions). If this is taken into consideration, it would still be possible that ownership structure explains CSR-CPA misalignment. If such research were to be executed, it would also be preferable to use the right historical data on ownership structure of 2018 and before.

In the same vein, and in light of principal-agent theory, it would be interesting to look more in-depth to the exact preferences of the beneficiaries of financial institutions and the relationship between CSR-CPA misalignment. It has been confirmed that banks and insurance companies, having clients with preferences that are broader than purely financial, have lower levels of CSR-CPA misalignment. However, there are still many banks and insurance companies with high levels of CSR-CPA misalignment. This could be explained in light of principal-agent theory, if it is found that there is variance among the beneficiaries of specific financial institutions regarding the extent to which they have strong environmental preferences as well.

Societally, this research has some important implications. Drawing on the notions embedded in PCSR-literature, the high prevalence of CSR-CPA misalignment in the financial sector means that society cannot rely on their publicly expressed intensions and environmental concern, as expressed in their CSR-policy. This is worrisome in itself, given the enormous societal influence and responsibility financial institutions will have in the next decades in light of the enormous investments necessary to facilitate the transition to a sustainable economy. This is unlikely to happen to a satisfactory degree without legal and political pressure. It also means that any attempt of financial institutions to influence

sustainable finance policy, which is omnipresent in the European Union, must be viewed very critically, as CPA of most financial institutions does not reflect genuine environmental concern. This may mean that the European Union has to reflect on the role of financial institutions in the policy processes of the EU, for example in consultations, through lobbying and in expert committees. Locke and Seele would go as far, as to state that large-scale CSR-CPA misalignment, which has definitely been confirmed, must lead to the exclusion of financial institutions from the EU policy processes in the future.

This analysis of the societal implications of the high prevalence of CSR-CPA misalignment derived from PCSR-literature bears great resemblance to the main notions of the monolithic school to finance. Despite the fact that the hypothesis derived from the monolithic approach to finance is not fully confirmed, the fact remains that a substantial majority of all financial institutions expresses neither ability nor willingness to incorporate environmental concerns in their decisions. This observation has implications for the expected effectivity of the EU Taxonomy: in light of the monolithic approach to finance, it is expected that the EU Taxonomy, which is currently a coordinative mechanism, will not result in the grand-scale reallocation of financial resources to environmentally sustainable investment, as long as these investments are not financially more profitable than financially unsustainable investments. Consequently, more prescriptive measures might be necessary to align the corporate decisions of financial institutions with societal expectations. The EU Taxonomy might be used to prescribe a certain percentage of Taxonomy-alignment of investments of all financial institutions, in line with a timeframe aligned with the Paris Climate goals. Recall that the monolithic approach to finance identifies so-called institutional supercycles, period of regulatory regimes to align financial institutions' actions with societal expectations, that financial institutions will continuously attempt to undermine to achieve as much profit as possible. A very prescriptive policy based on uniform, strict and science-based requirements set out in the EU Taxonomy, could be quite effective to prevent this tendency of financial institutions to undermine regulation (especially when it is supplemented with fossil fuel divestment obligations derived from a 'brown' taxonomy) .

However, given the confirmation of hypothesis 2 derived from the principal-agent school, it can also be established that, generally speaking, clients of financial institutions (at least of banks and insurance companies) have preferences that are societal, as well as financial. The implementation of the EU Taxonomy, even as a mere coordinative

mechanism, will substantially increase environmentally sustainable investments by these institutions. It namely solves the problem at the core of the causal mechanism embedded in the principal-agent approach, that financial institutions are not able to compete based on the environmental sustainability of their investments. The financial institutions with low and medium CSR-CPA misalignment will invest more sustainably in line with the demands of their clients, who will move their business elsewhere if they deem the investment activities of the financial institutions unsatisfactory. At any rate, the implementation of the EU Taxonomy will increase environmentally sustainable investment, but the question as to which extent, depends on the prevalence of environmental concerns among clients. If that prevalence is high enough, in the end all or a substantial majority of financial institutions will significantly increase their environmentally sustainable investment in order not to lose customers. If that prevalence is limited, there will simply come to exist a distinction between banks with more environmentally sustainable investment and less profit and vice versa. In that case, the EU Taxonomy might be limitedly effective in delivering on its promise as a transformative tool to a sustainable economy.

The conclusion of this research is seemingly cynical: in order to achieve the indispensable transition to a sustainable economy, we have to depend on an industry on which we cannot rely. However, this research also delivers a message of hope. No matter the inability of a majority of financial institutions to incorporate environmental concerns in their investment decisions, the implementation of the EU Taxonomy will force all financial institutions to invest more sustainably, if only our collective will and action are strong enough. In the end, it is all in our hands.

7. Appendix

7.1. 50 largest European banks

Rank[159]	Bank	Home country[160]	Membership IIGCC[161]	Support 'brown' taxonomy[162]	Group
1	HSBC Holdings Plc	UK	x		2
2	BNP Paribas	France	x		2
3	Crédit Agricole	France	x		2
4	Banco Santander	Spain	x		2
5	Deutsche Bank	Germany			3
6	Société Générale	France			3
7	Groupe BPCE	France			3
8	Barclays	UK		x	2
9	Lloyds Banking Group	UK			3
10	ING Group	Netherlands			3
11	UBS Group AG	Switzerland	x		2
12	UniCredit SpA	Italy			3
13	Crédit Mutuel Group	France			3
14	Intesa Sanpaolo Spa	Italy			3
15	RBS	UK			3
16	Credit Suisse	Switzerland			3
17	BBVA	Spain			3
18	Standard Chartered	UK		x	2
19	Rabobank	Netherlands			3
20	Nordea	Finland	x		2
21	DZ bank AG	Germany			3
22	Danske Bank	Denmark	x	x	1
23	Commerzbank AG	Germany			3
24	CAIXA Bank SA	Spain			3
25	ABN AMRO	Netherlands			3
26	PAO Sperbank of Russia	Russia			3
27	Svenska Handelsbanken	Sweden	x		2
28	KBC Group	Belgium			3
29	Nationwide Building Society	UK			3

[159] Size by total assets at the end of 2018, see: S&P Global/Market Intelligence, 'Europe's 50 largest banks by assets', published April 11 2019, https://www.spglobal.com/marketintelligence/en/news-insights/trending/7NsXjB8GspSSHHkvF0LgYA2.
[160] Ibidem.
[161] IIGCC, 'Our members'.
[162] European Commission, 'Consultation on the Renewed Sustainable Finance Strategy. Received contributions'.

30	DNB ASA	Norway			3
31	Skandinavska Enskilda Banken	Sweden			3
32	La Banque Postale	France			3
33	Landesbanken Baden-Württemberg	Germany			3
34	Erst Group Bank AG	Germany			3
35	Banca de Sabadell SA	Spain			3
36	Swedbank AB	Sweden	x		2
37	Bayerische Landesbank	Germany			3
38	BFA Sociedad Tenedora de Acciones	Spain			3
39	Raiffeissen Gruppe Switzerland	Switzerland			3
40	Nykredit	Denmark	x		2
41	VTA BANK	Russia			3
42	Landesbank Hessen	Germany			3
43	Belfius Banque	Belgium			3
44	Banco BPM SpA	Italy			3
45	Norddeutsche Landesbank Girozentrale	Germany			3
46	Züricher Kantonalbank	Switzerland			3
47	Dexia SA	Belgium			3
48	OP Financial Group	Finland			3
49	Raiffeisen Bank International AG	Germany			3
50	Banco Montei dei Paschi di Siena	Italy			3

7.2. 50 largest European insurance companies

Rank[163]	Company	Home country	Membership IIGCC[164]	Support 'brown' taxonomy[165]	Group
1	AXA	France	x		2
2	Allianz	Germany	x	x	1
3	Prudential Plc	UK			3
4	Legal & General	UK	x		2
5	Generali	Italy	x		2
6	Aviva	UK	x	x	1
7	Aegon	Netherlands	x		2
8	CNP assurances	France			3
9	Zurich Insurance	Switzerland			3
10	Munich Re	Germany			3
11	Standard Life	UK			3
12	Swiss Re	Switzerland	x		2
13	Old Mutual	UK			3
14	Swiss Life	Switzerland			3
15	NN Group	Netherlands			3
16	Talanx	Germany			3
17	Chubb Ltd	Switzerland			3
18	Covea Mutual Insurance	France			3
19	Ageas	Belgium			3
20	Phoenix Group	UK	x		2
21	Groupama	France			3
22	Achmea	Netherlands			3
23	Unipol Gruppo	Italy			3
24	Delta Lloyd	Netherlands			3
25	Baloise	Switzerland			3
26	Mapfre	Spain			3
27	KLP Group	Norway			3
28	Hannover Re	Germany			3
29	Storebrand	Norway			3
30	XL Group	Bermuda			3
31	Helvetia Holding	Switzerland			3
32	Vienna Insurance	Austria			3
33	SCOR SE	France			3
34	Mediolanum	Italy			3
35	Sampo Oyj	Finland			3

[163] Size by total assets at the end of 2016, see: Relbanks, 'Top Insurance Companies in Europe, last visited July 29 2022, https://www.relbanks.com/top-insurance-companies/europe.
[164] IIGCC, 'Our members'.
[165] European Commission, 'Consultation on the Renewed Sustainable Finance Strategy. Received contributions'.

36	Uniqa Insurance Group	Austria			3
37	PZU SA	Poland			3
38	Nuernberger Beteiligungs	Germany			3
39	RSA Insurance Group	UK			3
40	Societa Cattolica di Assicurazione	Italy			3
41	NFU Mutual	UK			3
42	Liverpool Victoria	UK			3
43	AIG Europe Limited	UK			3
44	Gjensidige Forsikring	Norway			3
45	Allied World Assurance Company	Switzerland			3
46	Direct Line Insurance Group	UK			3
47	Topdanmark A/S	Denmark			3
48	Amlin	UK			3
49	Chesnara	UK			3
50	Tryg A/S	Denmark			3

7.3. 50 largest asset managers

Rank[166]	Asset Manager	Home country	Membership IIGCC[167]	Support 'brown' taxonomy[168]	Group
1	Blackrock	USA	x		2
2	VanGuard Asset Management	USA	x		2
3	State Street Global Advisors	USA	x		2
4	Fidelity Investments	USA	x		2
5	BNY Mellon Investment Management	USA			3
6	J. P. Morgan Asset Management	USA	x		2
7	Capital Group	USA			3
8	Pimco	USA/Germany	x		2
9	Amundi	France	x		2
10	PGIM	USA			3

[166] Size in total assets by the end of 2018, see: Kurtosys, 'The Top 50 Asset Managers by AUM [INFOGRAPHIC], last visited July 29 2022, https://www.kurtosys.com/the-top-50-asset-managers-by-aum-infographic/.
[167] IIGCC, 'Our members'.
[168] European Commission, 'Consultation on the Renewed Sustainable Finance Strategy. Received contributions'.

11	Goldman Sachs AM International	USA	x		2
12	Legal & General Investment Management	UK	x		2
13	Wellington Management International	USA	x		2
14	T. Rowe Price	USA	x		2
15	Nuveen	USA			3
16	Natixis Investment Managers	France			3
17	Invesco	USA/UK	x	x	1
18	Northern Trust Asset Management	USA	x		2
19	AXA Investment Managers	France	x		2
20	Sumitomo Mitsui Trust AM	Japan			3
21	Insight Investment	UK	x		2
22	UBS Asset Management	Switzerland	x		2
23	DWS Group	Germany			3
24	PGIM Fixes Income	USA			3
25	Affiliated Managers Group	USA			3
26	Legg Mason	USA			3
27	Franklin Templeton	USA			3
28	Aberdeen Standard Investments	UK			3
29	BNP Paribas Asset Management	France	x		2
30	Metlife Investment Management	USA			3
31	Allianz Global Investors	Germany	x	x	1
32	Mitsubishi UFJ Trust and Banking Corp	Japan			3
33	Schroder Investment Management	UK			3
34	New York Life Investments	USA			3
35	APG Asset Management	Netherlands			3
36	Dimensional Fund Advisors	USA			3

37	Alliancebernstein	USA			2
38	Generali Investments	Italy	x		2
39	Mellon	USA			3
40	Blackstone	USA			3
41	Wells Fargo Asset Management	USA			3
42	Asset Management One International	Japan			3
43	Morgan Stanley Investment Management	USA			3
44	Federated Investors	USA	x		2
45	Nomura Asset Management	Japan			3
46	HSBC Global Asset Management	UK	x		2
47	Columbia Threadneedle Investments	USA			3
48	Western Asset Management Company	USA			3
49	MFS Investment Management	USA			3
50	M&G Prudential	UK			3

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