

The Triple R Investments RRR: Relations, Risks, Responsibility

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Prof. Dr. Dr. h.c. Christoph Stückelberger
Executive Director of Geneva Agape Foundation,
Founder and President of Globethics.net Foundation
Professor of Ethics Basel, Moscow; Enugu/Nigeria, Beijing/China.

Content

1. What is the Goal of Business and Investments?
2. The Triple RRR Investments
3. The Triple RRR Reporting, Ratings, Accounting, Legislation
4. From ROI to ROE and Why Ethics Pays

1. What is the Goal of Business and Investments?

1.1 What is the Goal of Business?

- I still hear around the world the definition: “The goal of business is to make profit.” This is rubbish!
- Of course, profit is needed for sustainable business, but it is not a goal in itself, it is a means.
- The goal of business and economy is to contribute to a life in dignity for all human beings through the production, trading, allocation, consumption and recycling of goods and services by innovation, creating jobs, cultivating and conserving the non-human environment and making profit for sustainable business.
- Business is **human-centred** and **nature-centred**
- In faith-perspective, business is **God-centred**.

1.2 What is the Goal of the Finance Industry and of Investments?

- The goal of the Finance Industry in general and investments in particular is to contribute to a life in dignity for all human beings through providing capital and related services to the right persons/institutions at the right location at the right time and by innovation, creating jobs, cultivating and conserving the non-human environment and making profit for sustainable business.
- Finance Industry/Investments are **human-centred** and **nature-centred, values-centred**
- In faith-perspective, Finance Industry/Investments are **God-centred (faith-values centred)**

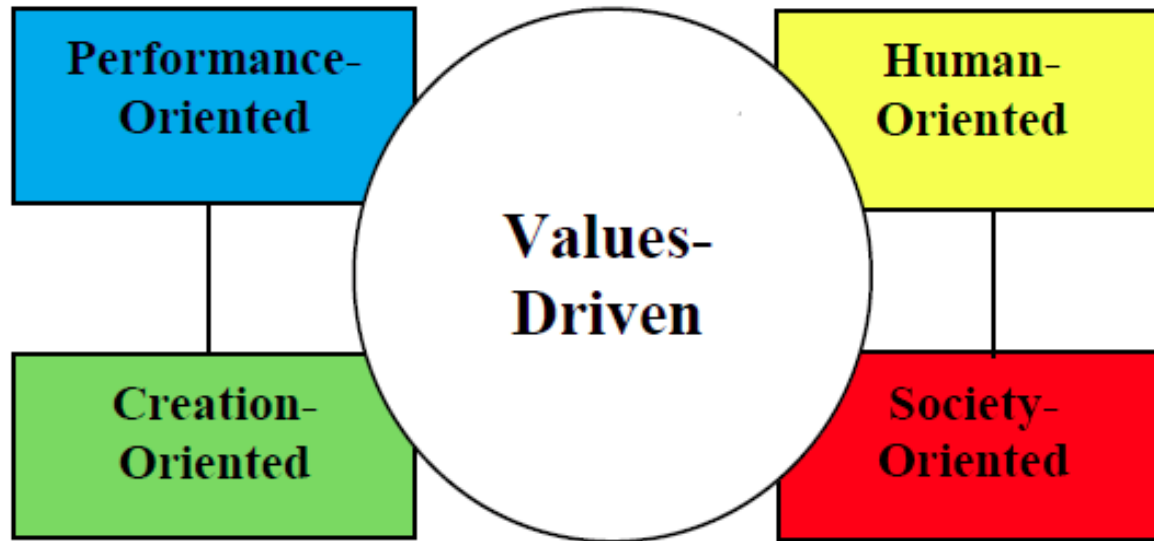
1.3 Investment Terminology Trends: From Confusion to Convergence

- SRI Socially Responsible Investments
- ESG Environmental, Social, Governance Criteria in Investments
- II Impact Investing
- RI Responsible Investing (UNPRI)
- SI Sustainable Investing (Eurosif)
- EI Ethical Investments
- VDI Values-Driven Investing
- FCI Faith-Consistent Investing

Convergence: Investments with

**1) return to investor, 2) doing no harm and
3) positive impact for society/environment**

1.4 Summary: Values-Driven Investments

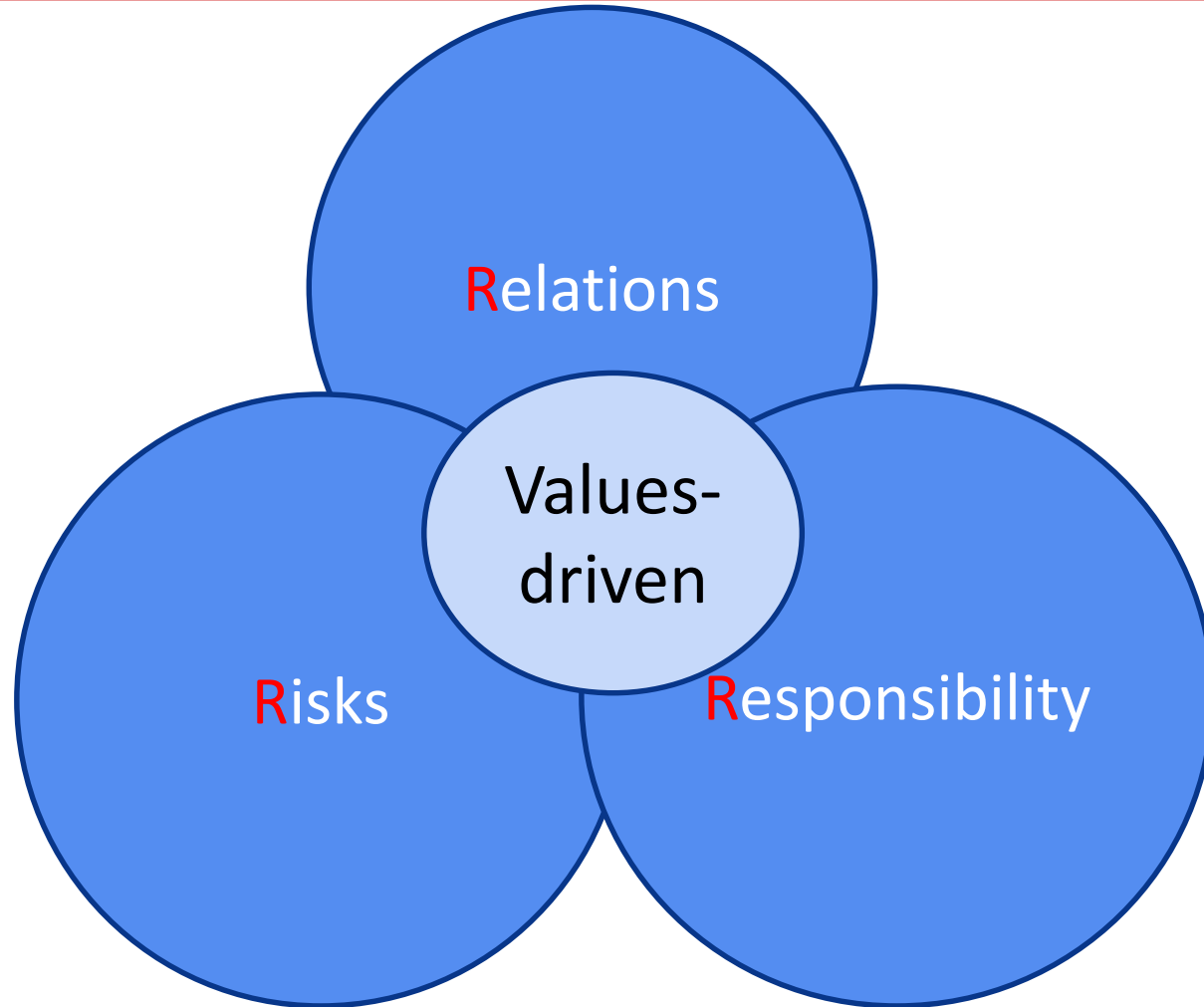


Values can be rooted in non-religious or religious world views.

2. The Triple RRR Investments

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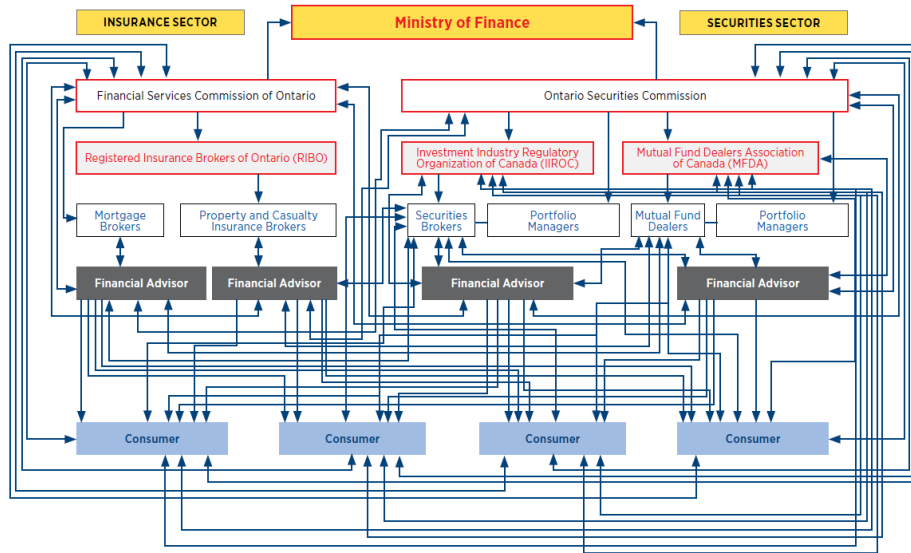
2.1 Triple **RRR** Investments



Triple RRR could also be called **Triple EEE**: Economy, Ecology, Ethics

2.2 Relations in Investments: Complexity

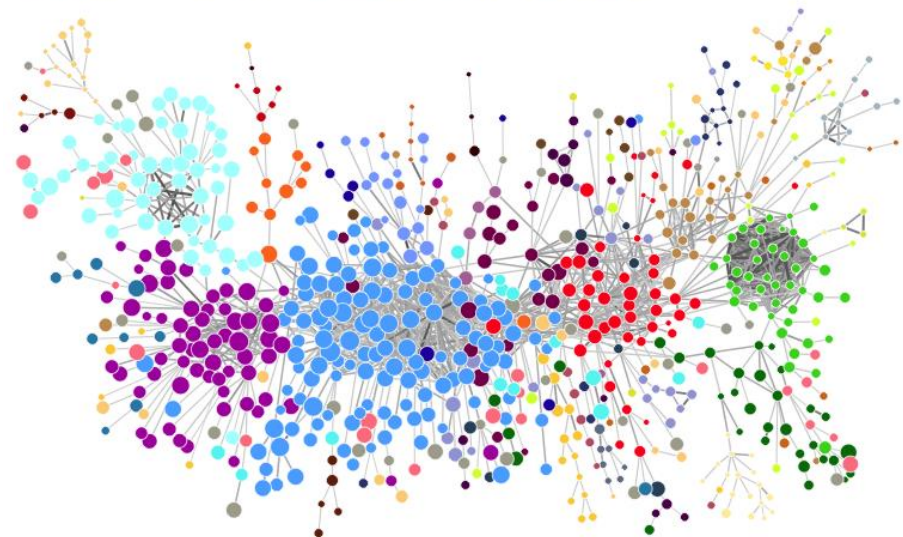
The **Finance Industry** in a globalized world became **very complex**: Very complex financial products, indirect and not direct relations. The CEO of a leading Swiss Bank in 2008 under critique confessed: “I myself did not understand the complexity of our financial products.”



Fin. Institutional Complexity

FIGURE 5.2:

► The product space revisited. The same as Figure 5.1 but with node sizes proportional to the Product Complexity Index (PCI).



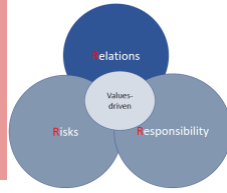
Fin. Product Complexity Index CPI

2.3 Relations in Investments: with Robots?

The **Finance Industry** in a globalized world became **very technology-dependent**: nano-banking (transactions in nano-seconds: the faster the technical connection, the better the chance for benefit). Robotic Process Automation (RPA) in the finance industry, Robots as Investors?



2.4 Human-centred Relations build Trust



Values-driven Investments try

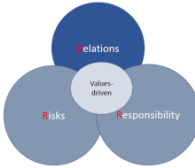
- to increase direct human interaction and relation
- to reduce complexity and increase transparency
- to build trust by long-term relations between investors, beneficiaries and intermediaries
- to create optimum profit/ return on investments, but not maximum profit
- to maintain the global perspective and resist nationalist protectionism
- To act on all levels with personal and institutional integrity, the basis of trust.



2.5 Nature-centred Relations for Sustainability

Values-driven Investments try

- to increase direct relations with nature
- to increase information about impact of investment on environment
- to respect and integrate knowledge and wisdom of local communities on nature
- to create optimum profit/return on investments, but not maximum profit/return on investments
- to maintain the global perspective and resist nationalist protectionism
- To act on all levels with personal and institutional integrity which is the basis of trust



2.6 Risks Management: Holistic

Values-driven Investments lead to better risk management by

- Holistic view of all aspects in economy, technology, politics, society, religions, spirituality and personal life
- Combination of information, analytics, emotion, personal instinct, gut feeling
- Avoiding the herd instinct
- Values-driven risk management (e.g. “investing in the poor” showed to be less risky than investing in the rich)
- Long term vision and thinking
- Using but not depending on technology, in risk analysis.



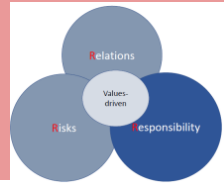
2.7 Responsibility: Re-pond to the Sponsor



The word responsibility (in the ,European‘ languages deriving from Latin) is composed of two words:

- „Spondere“ (Latin) means to promise, to offer, to commit, to sign a contract, to entrust power (in the monotheist theological perspective: God offers his earth, he commits it to humankind), he empowers (gives power) human beings.
- „Re-spondere“ (Latin) means to respond, to answer to this offer by responsible behaviour / responsible use of this offer/power.
- Power and Responsibility are interconnected: the more power one has, the greater the responsibility is!

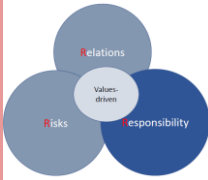
2.8 Responsibility: Good Stewardship



- The responsible investor acts not as owner (even if he/she is), but as caretaker of entrusted capital, as good steward (Greek New Testament Luke 12:42-48 oikonomos, the economist, housekeeper, steward)
- Responsibility as relation is based on the Golden Rule, the principle of mutuality and reciprocity. It is known and supported in all world religions and world views.



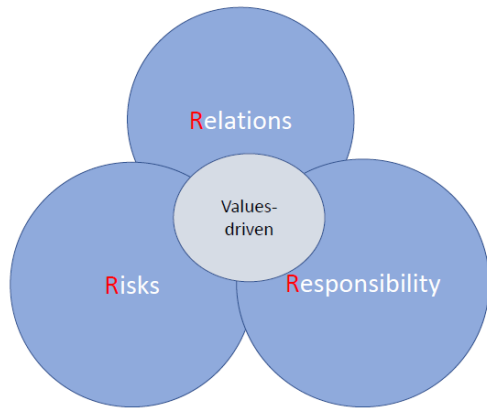
2.9 Responsibility Builds Trust



Studies show key elements how to build trust:

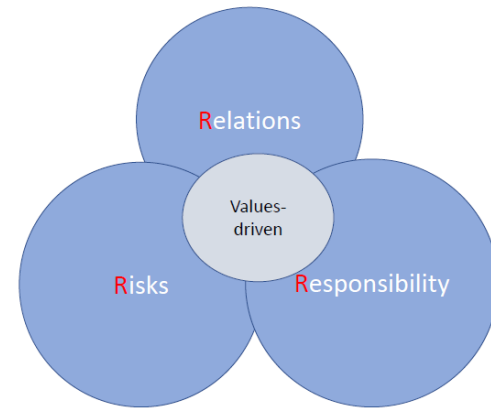
- The relations/environment of persons/institutions
- The ability to recognize and deal with risks
- The ability to think ahead and long term
- The ability to build majorities/find political coalitions
- Trustworthy are persons and institutions with
 - Competence (professional, social, communicative)
 - Reliability, Faithfulness
 - Integrity, honesty
 - Openness (information policy)
 - Caring attitude (respect, take people serious, loyalty)

See results of studies such as Gabarro 1978, Butler & Cantrell 1984, Butler 1991; Clark & Payne 1997, Meifert 2003



3.

The Triple RRR: Reporting Rating Accounting Legislation



3.1 Triple **RRR Reporting**: Integrated

- Financial Reporting
 - International Accounting Standards
- Environmental Reporting
 - e.g. GRI: Global Reporting Initiative
 - E.g. Fair Trade reporting, sector codes
- Social Reporting
 - e.g. UNGC: UN Global Compact (Human Rights Reporting)
 - E.g. UNHR: UN Human Rights Framework
 - E.g. Fair Trade, sector codes, social impact assessment
- Integrated Reporting
 - IR: Integrated Reporting Framework, new 2013ff

<https://integratedreporting.org/>

3.2 Triple **AAA Rating**: Mainstream

- A credit rating evaluates the credit worthiness of a debtor, especially a business (company) or a government. It is an evaluation made by a credit rating agency of the debtor's ability to pay back the debt and the likelihood of default. An issuer that is rated AAA has an exceptional degree of creditworthiness and can easily meet its financial commitments.
- Corporate Credit Rating
- A sovereign credit rating, i.e. a national government. Rating political risks and investment environment
- A long-term rating is the basis of AAA rating system
- A short-term rating is a probability factor of an individual going into default within a year.

| Moody's | | S&P | | Fitch | | |
|-----------|------------|-----------|--|-----------|------------|----------------------------------|
| Long-term | Short-term | Long-term | Short-term | Long-term | Short-term | |
| Aaa | P-1 | AAA | A-1+ | AAA | F1+ | Prime |
| Aa1 | | AA+ | | AA+ | | High grade |
| Aa2 | | AA | | AA | | |
| Aa3 | | AA- | | AA- | | |
| A1 | | P-2 | A+ | A-1 | A+ | F1 |
| A2 | A | | A | | | |
| A3 | A- | | A-2 | A- | F2 | Lower medium grade |
| Baa1 | BBB+ | BBB+ | | | | |
| Baa2 | P-3 | BBB | A-3 | BBB | F3 | |
| Baa3 | | BBB- | | BBB- | | |
| Ba1 | | BB+ | B | BB+ | B | Non-investment grade speculative |
| Ba2 | | BB | | BB | | |
| Ba3 | | BB- | | BB- | | |
| B1 | | B+ | | B+ | | Highly speculative |
| B2 | | B | | B | | |
| B3 | | B- | | B- | | |
| Caa1 | | Not prime | CCC+ | C | | |
| Caa2 | CCC | | Extremely speculative | | | |
| | CCC- | | Default imminent with little prospect for recovery | | | |
| Caa3 | CC | | | | | |
| Ca | C | | | | | |
| | | | | | | |
| C | | | D | / | DDD | / |
| / | | DD | | | | |
| / | | D | | | | |

3.3 Triple **RRR Rating**: Replacing Triple AAA

- The AAA rating system is mainly a rating on financial creditworthiness and risks, not a holistic analysis of a company or country.
- The three major rating agencies, private companies (Moody's, S&P, Fitch, all American), have an extremely high influence on the world economy.
- Independency of rating agencies is criticised, especially since the financial crisis 2007 and disastrous wrong rating of mortgage risks.

Conclusion: AAA needs to be replaced by a more holistic rating of companies and governments, including the economic, social, ethical, environmental and SDG-related performance of a company or a country.

3.4 Triple **RRR Accounting**: New Standards

- Current Accounting Standards are to a great extent globally harmonised, but show mainly the financial perspective.
- Integrated accounting is a new effort for a more holistic accounting, but far from being mainstream
- See Unctad/ISAR (Internat. Standards of Accounting and Reporting : <http://isar.unctad.org/sustainability-reporting/> /

Conclusion: Current accounting standards have to be enlarged (not replaced) by aspects of relations, risk and responsibility in a more holistic way. Investments coherent with RRR criteria have to be recognised and not punished by some current accounting standards

3.5 Triple RRR Legislation: Legally Binding

- International standards and conventions and national legislations for the finance industry are in constant development, e.g. new transparency standards.
- A balance is needed between under-regulations or too late regulations (e.g. robotics and other technologies) and over-regulation.

Conclusion: International standards and conventions and national legislations for the finance industry and for investments should include the RRR principles in future adaptations more directly in order to make them mainstream.

4.1 From ROI to ROE: Return on Ethics

- ROI (Return on Investments) is what investors are interested in: how much profit do I get from my investments?
- ROE means: Ethics pay! Morals bring capital. There is a manifold return: the RRR Strategy is financially profitable at least long term, brings advantages to the poor, to the creation and to support the Sustainable Development goals, gives a good conscience and meaning for the investors etc.

4.2 Why RRR/Ethics pay off

- Ethics is reputation and risk management!
- Higher stability/lower corporate risks (security gain);
- lower interaction and friction costs, e.g. through strikes, crime, monitoring costs, environmental damage (productivity gain);
- higher productivity through the identification of personnel with the company and through lower fluctuation (motivation gain);
- strategy with a long-term basis (sustainability gain);
- higher consumption of ethically produced goods (turnover gain);
- advantages on the capital market (capital gain);
- wider acceptance among stakeholders (image gain);
- lower external and environmental costs (economic gain).

شكراً جداً (Shokran Gidan)

merci

baie dankie tešekkürler

ngiyabonga

thank you kealeboga

diolch yn

fawr धन्यवाद (Danyavad)

謝謝 (xiexie)

asante sana

gracias

Спасибо (spacibo)

danke

grazie

adube

oshe

dankjewel

obrigado/a