



ESG Data,  
Ratings &  
Benchmarking

2019 SAM Corporate  
Sustainability Assessment -  
Annual Scoring &  
Methodology Review

**2019 SAM Corporate Sustainability Assessment -  
Annual Scoring & Methodology Review**

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09/2019  
RobecoSAM AG

[www.robecosam.com/csa](http://www.robecosam.com/csa)

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# 1 General Remarks

This year a record 1166 companies participated in the SAM Corporate Sustainability Assessment (CSA), representing a 17.4% increase over 2018's participation numbers<sup>1</sup>. It was the 21<sup>st</sup> time the questionnaire was sent to the world's largest companies. Each year following the announcement of the DJSI components, the CSA is reviewed, and adjustments are made to the questions and their relative weights in order to capture new sustainability trends and issues that are expected to have an impact on companies' competitive landscape. This annual update ensures that we are able to focus on relevant financially material intangible factors that have demonstrated clear correlations to past financial performance. Incorporating these updates into the CSA methodology development process ensures that the ESG analysis remains focused on financially material factors.

With the 2019 methodology, we aligned our methodology with both our own research on the most financially material topics and accepted sustainability reporting frameworks such as GRI, SASB and CDP in order to improve clarity and data consistency for companies. This helped to streamline the questionnaire and address the growing reporting burden companies face. Of course, we also introduced new questions to further challenge companies on emerging risks and opportunities.

## 1.1 Scoring Methodology Updates

Every year, including the 2019 assessment, we have dedicated attention to reducing the overall number of questions within the questionnaire, removing questions or criteria we felt were no longer of material significance to companies, or that addressed topics that have become common practice over the last few years and no longer distinguish leading companies. This allowed us to introduce new general and industry-specific criteria, to ensure that our assessment continues to raise the corporate sustainability bar and challenge companies in their thinking about long-term risks and opportunities.

## 1.2 Clarified Expectations of Public Disclosure

Supporting documents are required for some questions so that we can verify the answers provided. Over the past years, we have increased the number of questions requiring publicly available data and supporting evidence, reflecting the general shift in investor demand for greater transparency and more readily available information in the public domain. Last year we clarified our expectations around public disclosure, marking a specific subset of questions with one of two designations:

**This question requires publicly available information:** Questions marked with this designation require publicly available information. If you include information (that is not publicly available) which our analysts cannot access in the public domain, we will not assess your response and no points will be awarded for this question: our assessment for this question is based upon your public disclosure of the information requested. Publicly available information should be directly accessible through navigation from your company's own website or a related website (e.g. subsidiary, affiliate, etc.).

**Additional credit will be granted for relevant publicly available evidence:** For questions marked with this designation, we ask for publicly available information, if possible. We encourage you to provide evidence that is publicly available for these questions and will grant additional credit for relevant publicly available evidence provided. However, these questions do not require publicly available supporting evidence and you are welcome to share non-public documents as references.

We see the Corporate Sustainability Assessment as a useful mechanism to promote increased corporate disclosure on underreported or emerging sustainability topics – to the benefit of companies' shareholders, investors, and other stakeholders. Over the years, we have received positive feedback from companies reaffirming this role. Over time,

<sup>1</sup> The SAM Brand SAM is a registered trademark of RobecoSAM AG. SAM is used to market services and products of a business unit within RobecoSAM, which specializes in providing ESG data, ESG rating services, and ESG benchmarking. SAM is not to be considered as a separate legal entity.

we plan to continually increase the scope of corporate sustainability disclosure, and our intention is that questions of the latter category (where publicly available evidence grants *additional* credit) gradually shift towards the first category, *requiring* public evidence.

### 1.3 Additional Methodology Updates

This document focuses on the major changes to the 2019 CSA methodology and shares observations on how companies performed on these new topics while further explaining the question rationale behind the changes. More information about the CSA methodology can be found on [our website](#).

The major updates to the methodology in 2019 affecting a majority of companies were in the areas of 1) Information Security, Cybersecurity & System Availability, 2) Privacy Protection, 3) Sustainable Finance, 4) Energy Mix, 5) Raw Material Sourcing, and 6) Living Wage. The first four updates are centred within the economic dimension and are critical to sustainability discussions around the world as new initiatives, frameworks, and opportunities emerge, and as legal risks materialize. Raw Material Sourcing represents a significant contribution to the environmental dimension to better address the topic of agricultural raw materials and commodities and promote sustainable agriculture practices. Lastly, Living Wage represented a future question in the 2019 CSA to be implemented into the 2020 CSA, in order to address the discrepancy between minimum wage policies and experiential living wage in practice.

We would like to reiterate here that in 2018, we increased the weight of the Media and Stakeholder Analysis within the overall scoring of the Corporate Sustainability Assessment in order to better reflect the negative impacts of corporate controversies and to address increasing investor interest in continuous monitoring of financial and reputational risks at companies. For more information on these changes and the reasoning behind them, please see a brief video regarding this [scoring methodology update](#).

Continuing again this year, we will be hosting [a series of webcasts](#) on the newly introduced questions with our sustainability experts to discuss this year's findings and answer questions from companies.

We would like to take this opportunity to thank all participating companies and other stakeholders for contributing to the continued evolution of the CSA. The invaluable feedback and expert insights that we receive are essential to maintaining a methodology that will continue to drive thinking about sustainability concepts and strategies that deliver real impact.

### 1.4 Data Quality

As global reporting measurement and reporting standards develop, we adapt our definitions where necessary in an effort to capture more comparable and precise data. Increasingly, sustainability data is being used by investors to measure the impact of their investments. As an example, RobecoSAM uses aggregated data from selected questions in the Operational Eco-Efficiency criterion in the CSA to measure the overall carbon, energy or water or waste intensity of an investment portfolio. This helps us show our clients how investing in a group of sustainability leaders can have a tangible positive environmental impact.

In order to provide investors with meaningful sustainability data to enable better informed investment decisions, this data needs to be precise and comparable. Therefore, we would like to remind companies to ensure that the quantitative data provided meets the definitions provided by RobecoSAM in the question information texts, and that any deviations are clearly explained in the comment fields provided. It remains essential that companies consult the information texts each year and read the question texts carefully to review what has changed from one year to the next. Please ensure that data is reported in the specified units given in the question, and that any conversions to these units are performed correctly. Reporting and collecting high quality sustainability information is the critical first step towards ensuring that sustainability information is more widely accepted and used by the investment community. If you are unsure about anything around data operationalization, please do not hesitate to contact our dedicated helpline: [assessments@robecosam.com](mailto:assessments@robecosam.com)

### 1.5 Supporting References & the Company Comment Field

In dialogue with companies, we consistently hear about increasing reporting fatigue – something that we take seriously have been addressing for several years. Our continued efforts to reduce the burden on companies

responding to the CSA incorporates includes deleting numerous questions either no longer relevant or material, or that do not differentiate between assessed companies, often as a result of a practice becoming industry standard. Additionally, we have focused on aligning our methodology with reporting standards, including GRI, SASB, and CDP to ensure that companies do not need to report the same data in different ways, for different audiences. Furthermore, we have clarified our approach to public and partially public supporting evidence while also clarifying our expectations around references and comments. We continue to receive tens of thousands of documents each year from companies as supporting evidence, even when not required. Examples are always welcome, but we kindly ask you to carefully review the documents you attach, ensuring they are truly relevant to the questions being asked.

We regularly include individual text fields within the question layout to allow companies to provide explanations or descriptions if we require these to assess the data provided. In these questions, information provided in these fields should relate specifically to the data reported, in line with the exact question being asked by RobecoSAM – no additional comments describing related initiatives, etc. need to be provided in the company comment field.

Furthermore, regarding the commentary provided in the company comment section at the bottom of each question as supporting evidence for all questions, we kindly ask companies to meet us in the middle by reducing the length of comments provided, and ask you to follow a few guiding principles:

- Providing explanatory comments should be the exception rather than rule.
- Additional comments should primarily be used to explain changes in data, calculation methodologies, or why a question is not applicable to your business model. If the data provided does not fit the format of the question asked by RobecoSAM, you can use the comment field to explain how the data may differ.
- Be brief and to the point. Please make sure that the information provided specifically relates to the question and reported data.

Additionally, unless a company fails to provide the information requested in the question layout itself yet manages to provide that information in the company comment (thus resulting in SAM analysts using this additional information to give the company as much credit as possible) the company comment section does not directly contribute to the final score of a question of a given question. **Long comments do not equal better scores.**

Therefore, please make sure you focus on making comments and attaching documents that you **want** us to read and **are essential** for understanding your response, and please be as specific as possible in terms of the page number and sections of the relevant documents. For questions where we do not explicitly require evidence, you may attach documents in the document library, but we do not guarantee we will review them.

## 1.6 Non-English Documents

We recognize that many CSA participants are based in non-English speaking countries, and often their base of operations may also be concentrated in these countries. Nevertheless, the official language of the CSA is English and we rely on clear translations and summaries of foreign-language texts to verify your answers and supporting evidence provided, as stated in our [Language Policy](#).

# 2 Scoring Methodology

## 2.1 2019 Scoring Methodology Updates

In 2019, as every year, we have reviewed the question- and criterion-level weights for all 61 industries that we cover in order to increase the focus on industry-specific material issues. In order to capture industry heterogeneity, sector-specific indicator weights are applied to their respective ESG indicators and are reviewed each year on the basis of their financial materiality within each industry and prioritized according to their expected magnitude and the likelihood of their impact on growth, profitability, capital efficiency, and risk.

This year, in accordance with the introduction of the Communication Services Sector within the GICS® classification, we have expanded our industry coverage from 60 to 61 industries. Particularly, SAM GICS® changes are relevant for companies from the Interactive Media & Services and Interactive Home Entertainment GICS® sub-industries. These sub-industries used to be classified under TSV IT services (previously TSV IT Services & Internet Software and Services) and SOF Software SAM GICS® industries, and will form the new IMS Interactive Media, Services & Home Entertainment.

As of April 2019, participation in the CSA enables the company to be eligible for the newly created S&P Dow Jones Indices (S&P DJI) ESG index family, in addition to the Dow Jones Sustainability Index (DJSI) family. The new S&P DJI ESG index family represents a new milestone in our collaboration. Essentially, after over two decades as a pioneer in sustainable investing, we are expanding the reach and impact of our research by sharing our ratings with the [global investment community](#). The S&P DJI ESG Scores can potentially be used for any of the more than [5000 S&P DJI](#) index strategies that currently exist, across regions and asset classes. Included in this launch is the [S&P 500 ESG](#), the S&P Global 1200 ESG, the S&P Europe 350 ESG, and further regional and country ESG indices. For more information regarding the new collaboration please refer to the FAQ from S&P DJI [here](#).

## 2.2 Question scoring

The maximum score for each question is 100. The various answer options within a question are scored individually or in combination, with the total sum resulting in a maximum of 100 points. As a result, removing or adding options to a question may impact the overall weight of each question component and thus the overall scoring of the question. Therefore, it is **important to carefully review each question every year**, as new elements may have been added, or other options removed. Examples of the major changes to questions will be discussed in section 3.

## 2.3 Criterion scoring

Criterion scores are determined by a weighted sum of question scores. As previously described, adding or removing questions within a criterion will shift the weight of individual questions, and therefore impact the criterion score. Therefore, it is possible that **a criterion score may change, even if the answers provided to the individual questions have not changed from one year to the next**, given question deletions, new questions, or if the underlying scoring scheme at the question level has changed.

## 2.4 Criterion Percentile Rankings

In addition to the absolute criterion score, companies receive a percentile ranking for each criterion. The percentile ranking represents the percentage of assessed companies that have received a lower score than the company in question. For example, if a company has a percentile ranking of 95 for a specific criterion, this means that the company scored higher than 95% of the companies in its industry. As the methodology is continuously developed and question and criterion weightings may shift over time, the percentile ranking is a useful tool to track performance against industry peers, as it shows the relative performance rather than the absolute performance of the company.

## 2.5 Weights

As part of our effort to increase transparency towards companies, RobecoSAM publicly discloses the [criterion weights for all industries](#) on the CSA website. The weightings of both individual questions and criteria are subject to

annual review, based on the materiality of each topic to an industry and question introduction or deletion. As a result, criterion scores may change due to a change in the underlying question weights. When introducing new criteria, RobecoSAM aims to set the weight of these criteria low in the initial years, as to allow companies to adjust to the new concepts and improve their data collection and reporting systems in these areas.

## 2.6 Scoring variations

- a. **Transparency / Disclosure vs. Performance Scoring.** Changes in scores can result from a change in scoring approaches, moving from “disclosure” scoring towards “performance” scoring. “Disclosure” scoring awards points for qualitative or quantitative information without placing any value judgment on the answer. For example, if the questionnaire asks for the share of female managers, the score could be driven by the company’s ability to report the number of women in management, indicating that this is something the company is actively tracking (disclosure). Alternatively, with “performance” scoring, the score would be driven by the actual number of female managers, measured against the total number of managers (performance). When introducing new questions asking for quantitative information, the initial focus is typically on disclosure scoring, awarding points to companies that can disclose relevant information, then as data collection and reporting mature over time, performance scoring may be introduced to capture a trend over time or measure a company’s performance relative to peers.
- b. **Public vs. Non-public information.** In line with the growing demand for accountability and transparency, our methodology increasingly focuses on assessing publicly available information.
- c. **Linear Peer Group Scoring.** Linear performance scoring was introduced in 2014 to some questions in order to measure a company’s performance relative to industry peers. Previously, a company’s performance over time was measured solely on the basis of the company’s own relative or absolute improvement.

Below is an overview of the different types of scoring used. Please note that “transparency” and “performance” refer to the scoring approach used for that specific question. One specific question can include either transparency, performance, or a combination of the two elements, but ultimately one Total Sustainability Score will be calculated, consisting of both transparency and performance components.

Figure 1: Overview of Scoring Types

Scoring Type	Description	Sample Questions
Transparency	Public disclosure	<ul style="list-style-type: none"> <li>Human Rights Disclosure</li> </ul>
	Availability of qualitative or quantitative information	<ul style="list-style-type: none"> <li>Largest Contributions and Expenditures</li> </ul>
Performance	Scoring of qualitative or quantitative data based on pre-defined thresholds or expectations	<ul style="list-style-type: none"> <li>Board Structure</li> <li>Human Rights Assessment</li> </ul>
	Trend scoring on company’s own performance over time	<ul style="list-style-type: none"> <li>Operational Eco-Efficiency</li> </ul>
	Linear peer group scoring	<ul style="list-style-type: none"> <li>Lost Time Injury Frequency Rate</li> <li>Employee Turnover Rate</li> </ul>

Source: SAM

# 3 Major Methodology Updates in 2019

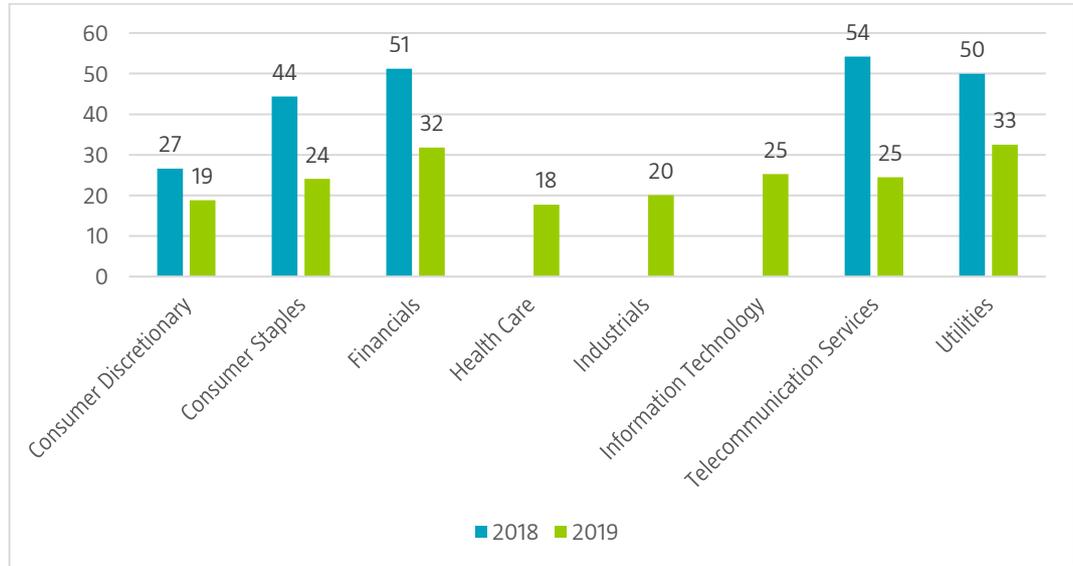
## 3.1 Information Security/Cybersecurity & System Availability

Due to the current digitization trend, including but not limited to cloud computing, online market places and payments, etc., it is crucial that access to network, IT systems, and data is assured at all times. As a result, lower than agreed upon system performance or service disruptions can result in higher costs and reputational risk for companies. The main risks stem from technical failure, human error, malicious attacks, or terrorist attacks. Managing such risks, including contingency plans, is crucial to ensuring business continuity.

Over the past decade, the number of information security breaches has been growing exponentially. The many incidents and their related costs have shown that information security/cybersecurity has become a financially material issue which has to be managed diligently to protect corporate value. The costs of cybercrime are manifold and can impact the company in different ways. Internal costs are operational costs and relate to dealing with the cybercrime and incident prevention. External costs include the consequences of the cyber-attack such as the loss or theft of sensitive information, operations' disruption, reputational risk, fines and penalties, infrastructure damage or revenue losses due to decreasing number of customers.

In 2019, we updated several questions in this criterion and expanded it to an additional 16 industries to reflect the growing importance and prominence of the topic. The criterion is now applicable to 29 industries, represented by eight GICS® sectors and focuses on how well companies are prepared to prevent major information security/cybersecurity incidents and if they can react appropriately in case of an attack. It also evaluates whether companies have experienced information security/cybersecurity incidents in the past and what the financial consequences were. Furthermore, we have expanded the questions to include vulnerability analysis and testing companies may undertake for cybersecurity threats and the information security experience of the board of directors.

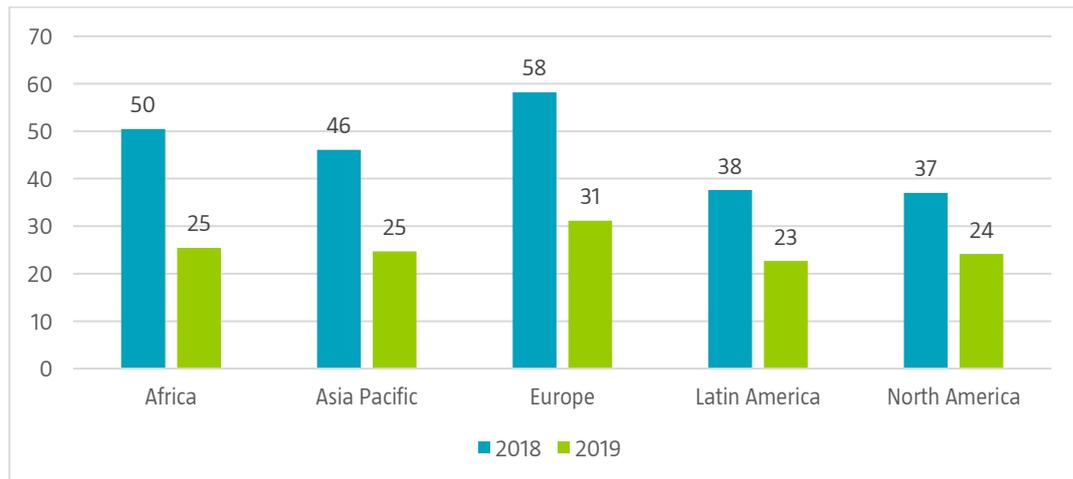
Figure 2: Information Security/ Cybersecurity & System Availability: Average Criterion Scores by Sector



Source: SAM CSA 2018 & 2019

Figure 2 shows the average Information Security/ Cybersecurity & System criterion scores of participating companies categorized by sector. The criterion was newly added to companies in the Health Care, Industrials and Information Technology sectors which is why they do not have 2018 scores. Overall, for the remainder of the industries the scores declined significantly from 2018 to 2019, due to both the newly added questions within the criterion and due to increased requirements within the existing questions. While the scores have decreased across the board for all sectors, companies in the Financials and Utilities sectors have continue to outperform other sectors.

Figure 3: Information Security /Cybersecurity & System Availability: Average Criterion Scores by Region



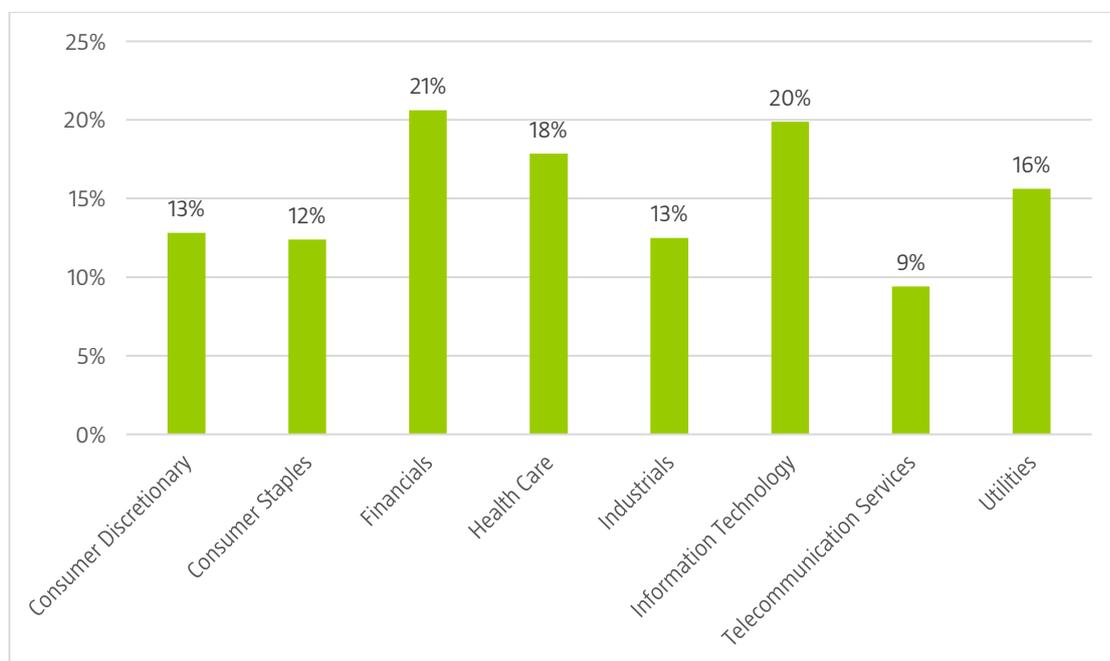
Source: SAM CSA 2019

Figure 3 shows the change in scores of companies across different geographic regions. Similarly to Figure 2 across all regions, we witnessed a consistent score drop for the same reasons mentioned in Figure 2. Despite this decrease in overall score European companies have stronger Information Security/Cybersecurity & System Availability than other regions. As in 2018, Asia Pacific, Latin American, North American, and African companies are lagging in their ability to demonstrate and evidence their cybersecurity measures.

### 3.1.1 Information Security/ Cybersecurity Governance

Just as boards are charged with overseeing a company's financial systems and controls, they also have a duty to oversee a company's management of cybersecurity, including oversight of appropriate risk mitigation strategies, systems, processes, and controls. Therefore, in this question we explore whether the company is aware of information security / cybersecurity risks on the highest level of management, more specifically the board of directors and if cybersecurity risks are treated as strategically relevant. Within this question we expect companies to be able to evidence that their board of directors holds relevant cybersecurity experience, as well as the name and background of this member. It is also worth noting that the sub- parts of the question 'Information Security / Cybersecurity Strategy' and 'Risk Management Framework' have been removed due to low differentiating value. The scoring of this question relies upon transparency and disclosure but does not require publicly available information. Thus, the aim of this question is to determine whether the company has the appropriate governance systems in place to prevent IT system failures and major information security / cybersecurity incidents.

Figure 4: Information Security/ Cybersecurity Governance: Is the board of directors engaged in the information security /cybersecurity strategy and review process and does the responsible person have relevant IT, information security or cybersecurity background?



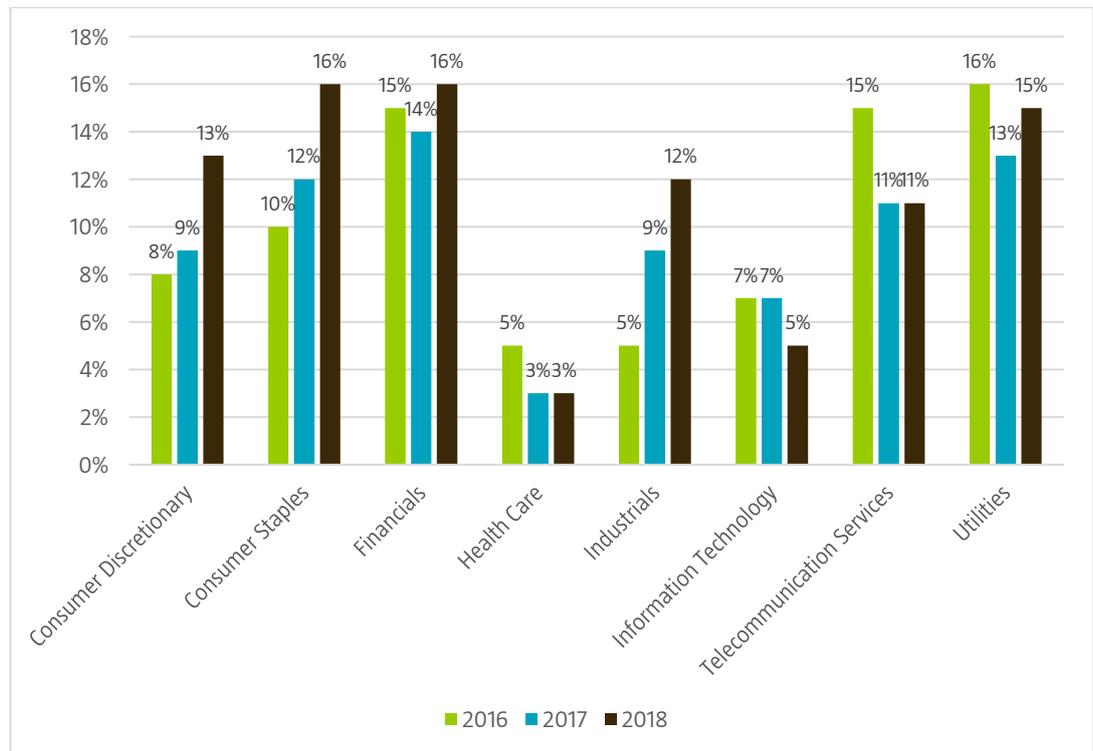
Source: SAM CSA 2019

*Figure 4 illustrates the average performance per sector of companies on their Information Security/Cybersecurity Governance structures. Among industries it is not surprising that Information Technology is a leader due to their existing experience and expertise on the topic. Furthermore, Financials demonstrate an above average performance having board members who possess experience in the field, which can be attributed to the higher risk of attack and increase in actual attacks on the industry in recent years. However, overall the percentage of companies who have board members with this experience is rather low and demonstrates an opportunity for companies to bolster their mitigation against cybersecurity threats.*

### 3.1.2 Information Security / Cybersecurity Breaches

Whilst the question above centres on the industry experience of board members in Information security, this question targets companies' track records of handling cybersecurity risks over the previous three years. In addition to the number of breaches the company has had in this period, the question simultaneously explores the financial impact of these breaches. The later part of the question assesses how this financial risk is mitigated through insurance coverage. We expect companies to be able to disclose the number of breaches and fines for the past three years, for which best practice would be zero. Furthermore, given the increasing threat of cybersecurity across these industries we expect companies to have insurance coverage for such breaches or cybersecurity incidents.

Figure 5: Information Security / Cybersecurity Breaches: Percentage of companies that experienced breaches of information security or other cybersecurity incidents the last three years



Source: SAM CSA 2019

*In figure 5, we see that the percentage of companies experiencing breaches compared to 2016 is increasing for Consumer Discretionary, Consumer Staples, Financials, and Industrials. Whereas there has been a decrease in the number of breaches in the Health Care, Information Technology, and Telecommunication Services sectors, demonstrating the increasing company awareness and preparedness to address cybersecurity risks. Only the Telecommunications Services and Healthcare sectors maintained consistent figures between 2017 and 2018.*

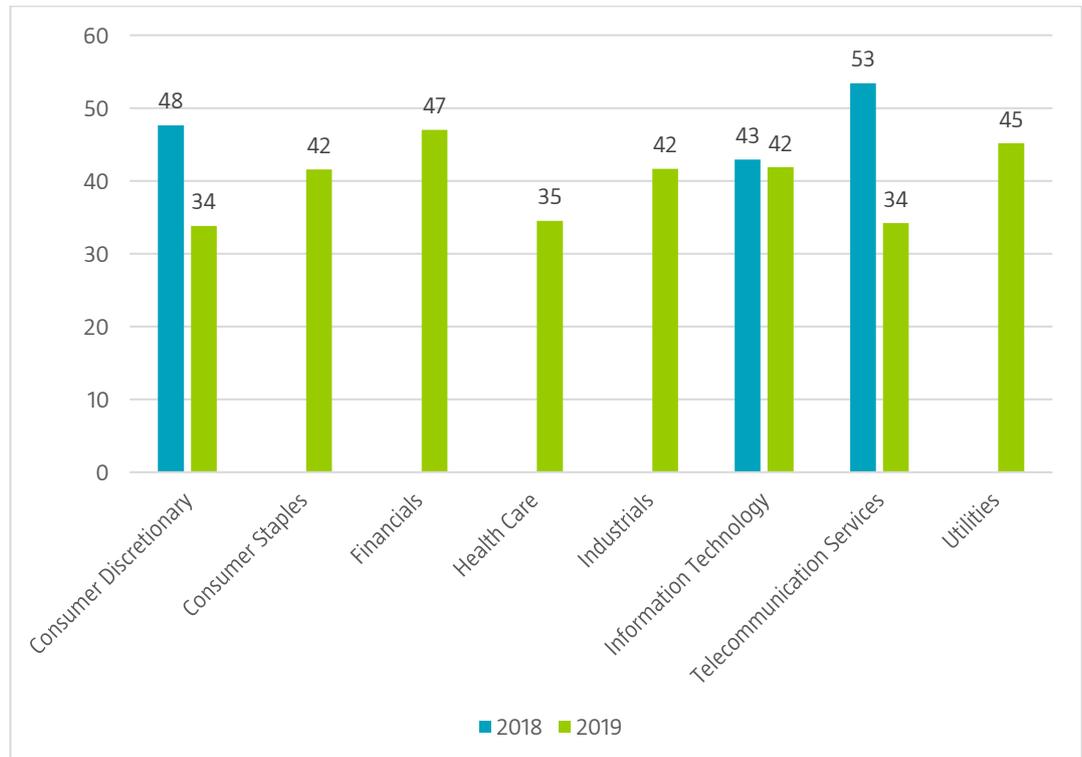
### 3.2 Privacy Protection

With data often called the “new oil” and considered a valuable commodity, powering the technology economy in the same way petroleum fueled 20th century industry, data privacy is rapidly becoming a key issue not just in the technology sector but more broadly across many industries. In fact, data is one of the most important assets a company has, making data protection a top priority for any company. For this reason, companies continue to invest in people, processes, technology, and policies to meet customer privacy requirements and avoid significant fines and reputational risk as data breaches can expose personal information. As a result, customers are asking more questions about how their data is captured, used, transferred, shared, stored, and destroyed.

Privacy protection is the ability of an individual to exercise a substantial degree of control over the collection, use, or disclosure (transfer) of their personal information by others. Regarding customers, ensuring their data is held safe is the minimum people will expect from companies they deal with or invest money in. Adequate data governance builds trust. It safeguards the reputation of the business and establishes a company’s brand as one that people can trust with their data. Thus, networked data and globalised corporate activities require careful handling. Insufficient database and network protection, unclear management of personal information and vague database access rules could expose companies to large risks in case of personal data leakage and misuse, or unauthorized access. For companies to avoid legal costs, reputational risk, and exclusion from certain activities, a company-wide privacy policy is paramount.

Similarly to the Information Security criterion, the Privacy Policy criterion has been updated this year and expanded to more industries. As opposed to 2018, this criterion is now applicable to 18 additional industries, meaning the criterion now covers 29 of the 61 industries. Across the criterion this year we have increased the number of questions which reward companies who publicly disclose on their privacy protection measures, procedures and policies. As well as this, the scope of questions such as Customers Information has been broadened to encompass the ongoing increase in expectations and requirements of companies' handling of customer data.

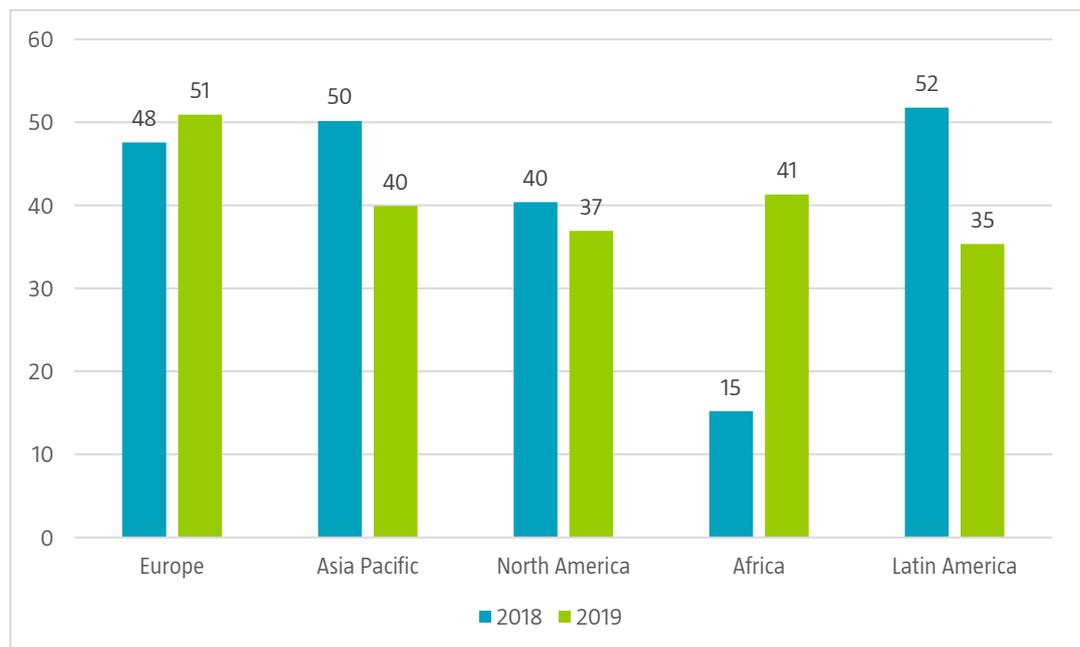
Figure 6: Privacy Protection: Average Criterion Scores by Sector



Source: SAM CSA 2019

**Figure 6 illustrates the change in average scores per sector on Privacy Protection. In 2019, we expanded the number of industries that this criterion is applicable to, so for the Consumer Staples, Financials, Healthcare, Industrials, and Utilities sectors there is no year-on-year data. The decrease in average scores by sector reflect the revisions made to the criterion in 2019 such as the increased emphasis on disclosure and public reporting as well as widening the scope of questions such as Customers' Information, which cumulatively show a decrease in scores amongst all sectors.**

Figure 7: Privacy Protection: Average Criterion Scores by Region



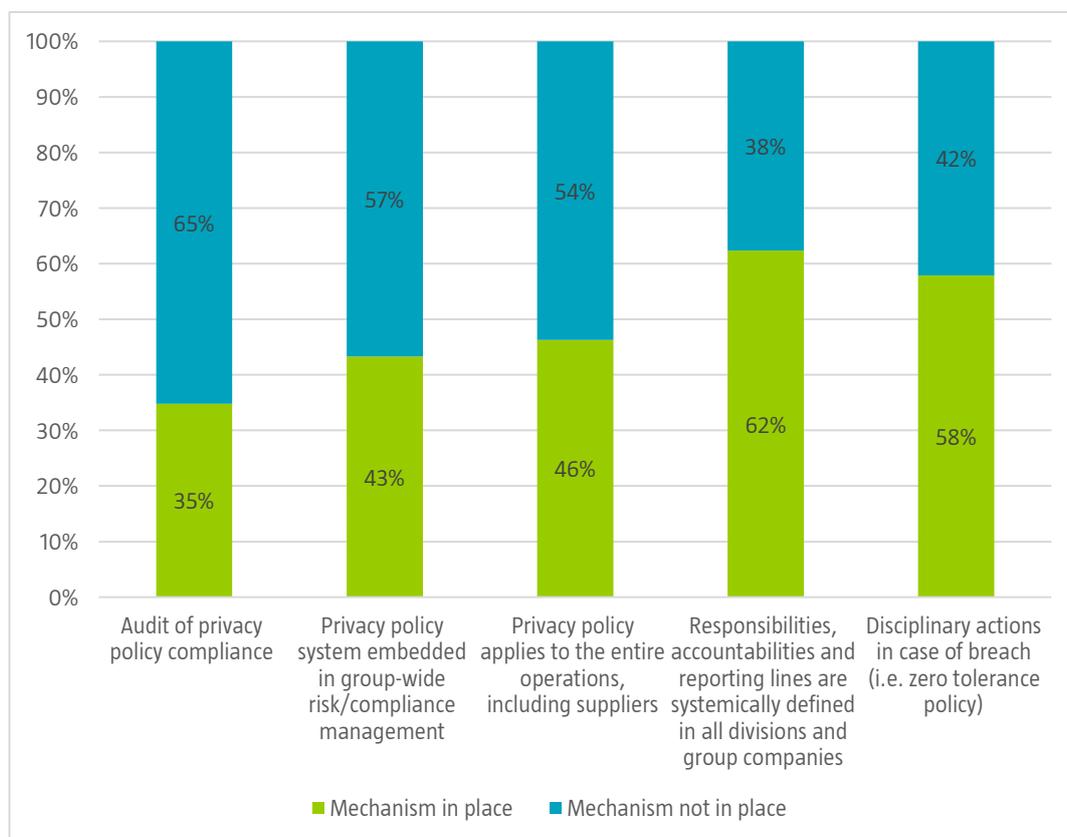
Source: SAM CSA 2019

*Figure 7 shows the average criterion scores across geographic regions. The average score of companies in North America, Latin America, and Asia Pacific decreased, whereas European and African companies have improved their score on average. The criterion has changed requiring increased disclosure and requirements which lead to the decrease in scores. European companies benefit from new legislation already in place in this region requiring them to address and accordingly disclose more information on this topic.*

### 3.2.1 Privacy Policy: Systems/Procedures

A strong security posture and implementation of a comprehensive privacy policy is the most effective measure that companies can deploy to mitigate the significant costs of remediating a data breach; therefore, this question asks for evidence of clear, systematic, well-defined practices. Thus, within this question we ask and expect companies to include the following; responsibilities and reporting lines systematically defined in divisions, evidence the privacy policy system is embedded within group wide risk/compliance management, disciplinary measures in the event of a breach and an audited privacy policy that applies to the whole operations including third party suppliers. In 2019 we made this question partially public, awarding additional points for companies who disclose this in the public domain. This change in scoring is reflected within the graph above as for some geographic regions this data is not typically publicly available.

Figure 8: Privacy Protection: Systems/ Procedures: Mechanisms in place to ensure effective implementation of company's privacy policy



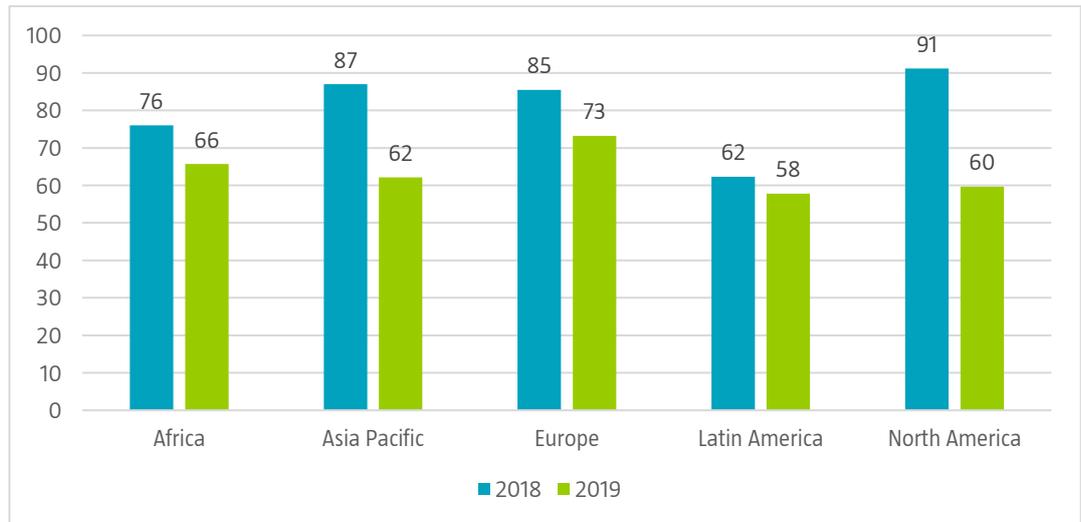
Source: SAM CSA 2019

Figure 8 illustrates the variety of systems and procedures companies utilise to implement their privacy policy. These figures show responsibilities and reporting lines defined in all groups and disciplinary measures in case of a breach are more common practice among companies, with 62% and 58% exercising these measures in 2019. Yet only 43% of companies had their privacy policy embedded in their group-wide risk compliance management, and just 35% have their privacy policy audited. Therefore, the different measures companies have to implement in their privacy policies varies significantly and more work is needed in the future to expand the number of mechanisms in place.

### 3.2.2 Customer Information

Transparency and control both play a key role in the question on Customers' Information; when a company has transparent privacy practices and the customers have ample control over the use and sharing of their data, they, the customers have the knowledge to make an informed decision about sharing their personal data. This question focuses on transparency and asks for the coverage of the customers who are informed about the information captured by the company. More specifically, we have incorporated new aspects such as the nature of the information captured (e.g. opt-out option available), request for data to be deleted and request to access data held by the company. Furthermore, the questions continue to assess how this data is protected and if the company has a third-party disclosure policy for private and public entities. The data coverage for all these aspects is also incorporated into the scoring in addition to verifying supporting documents.

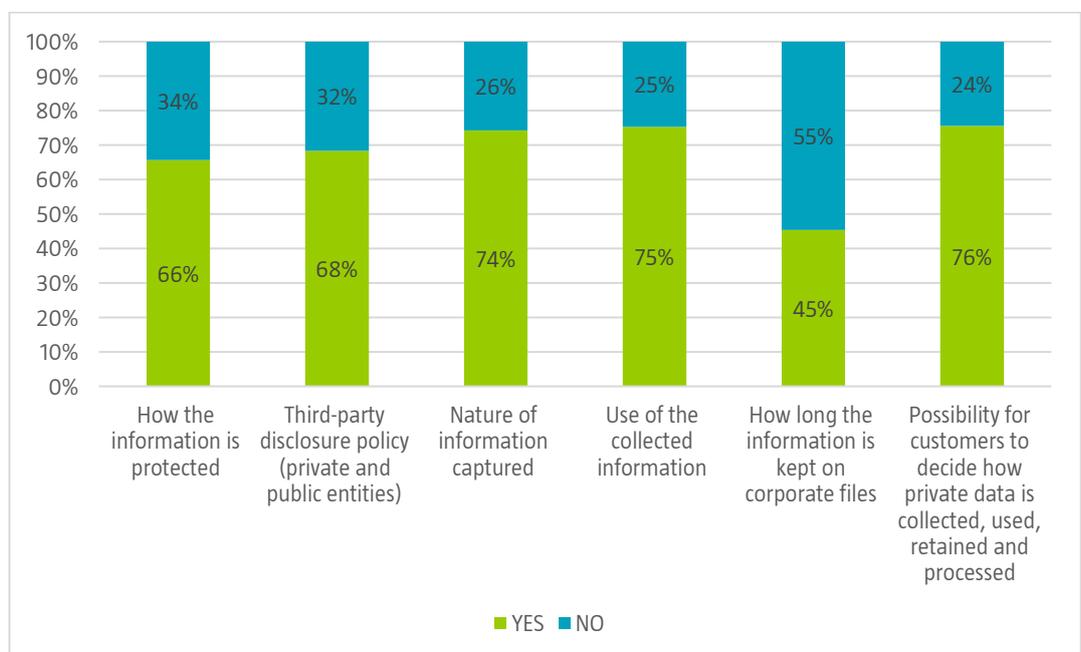
Figure 9: Customers' Information: Average Question score by Region



Source: SAM CSA 2018 and 2019

Figure 9 demonstrates the average score of companies across geographic regions in terms of their customer information policies. Given that the scope of the question Customers' Information was expanded from 5 privacy policy issues to 13, all regions saw a decline in score. For North America and Asia Pacific, the score drop was rather considerable, whereas Europe experienced less steep drop, which can be partially explained by the existing legislation of the EU General Data Protection Regulation which was brought into force in 2018.

Figure 10: Customers' Information: Do companies inform customers on the privacy protection issues?



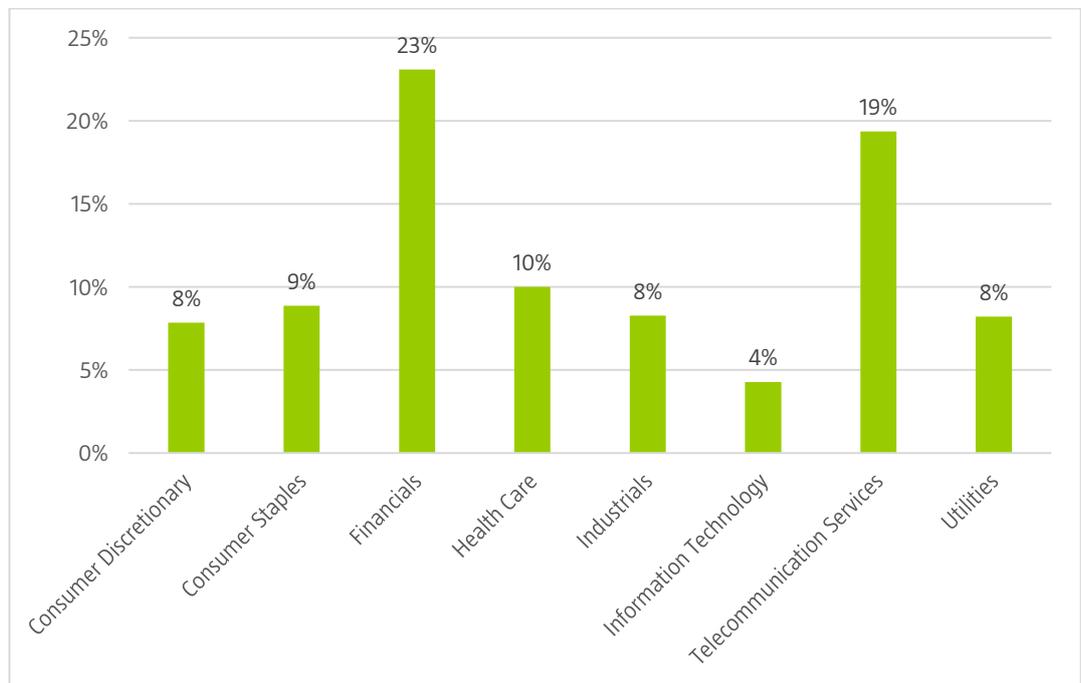
Source: SAM CSA 2019

Figure 10 shows a mixed picture of the extent to which companies inform their customers on privacy protection issues. In 2019, around 75% of companies inform their customers of the nature of information captured, the use of this collected information and the possibility for them to decide how it is collected, used, retained and processed, demonstrating expected company practices.

### 3.2.3 Breaches of Customer Privacy: Complaints

The strong growth in data traffic and time spent on the internet together with new innovative services and applications have led to an increased threat of cybercrime. The increasing digitization is bringing new challenges and threats to customer trust and satisfaction as companies are handling an increasing amount of data on people and their activities. On the other hand, good quality personal data management can also become a competitive advantage for companies. This question measures the number of substantiated complaints related to customer privacy and loss of customer data companies receive. The purpose is also to measure how transparent companies are in their public reporting concerning these breaches. Therefore, companies are expected to be able to disclose the number of substantiated complaints they've received as well as the breakdown by type (e.g. theft) and source of complaint (e.g. regulatory body).

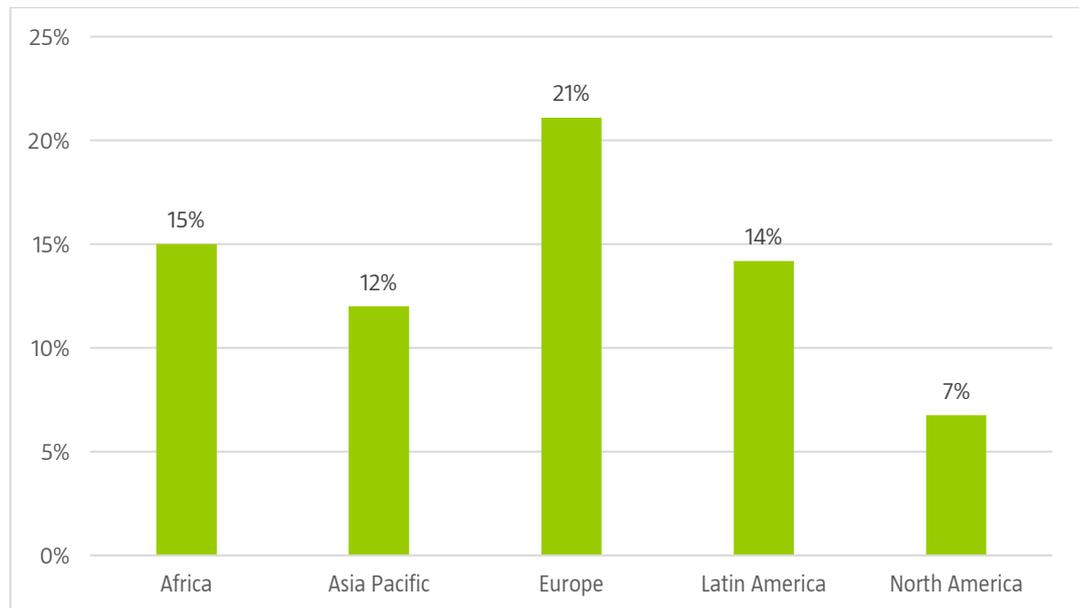
Figure 11: Breaches of Customer Privacy: Complaints: Percentage of companies with substantiated complaints received concerning breaches of customer privacy in the last financial year by Sector



Source: SAM CSA 2019

*The percentage of companies who received substantiated complaints for breaches of privacy for many industries including Consumers Discretionary, Consumer Staples, Health Care, Industrials, and Utilities the figures average around 10%. Financials and Telecommunications had the highest frequency and volume of breaches; however, it is worth noting that both sectors have a high exposure to a wealth of customer data, more so than the other industries in Figure 11. Noteworthy is the Information Technology sector which also handles extensive amounts of customer data but experienced less breaches than all other sectors demonstrating their preparedness to safeguard themselves against such incidents.*

Figure 12: Breaches of Customer Privacy: Complaints: Percentage of companies with substantiated complaints received concerning breaches of customer privacy in the last financial year by Geographic Region



Source: SAM CSA 2019

*Figure 12 illustrates the geographic spread of substantiated complaints concerning breaches of customer privacy, in which regions such as Africa, Asia Pacific, and Latin America initially appear to be leading the pack. It is worth questioning however how developed the channels for reporting complaints of breaches of customer privacy are in these regions. This is also illustrated by Europe holding the highest percentage of complaints, leading with 21% of European companies receiving substantiated complaints concerning breaches of customer privacy, yet this region has one of the most developed systems and channels for reporting these complaints.*

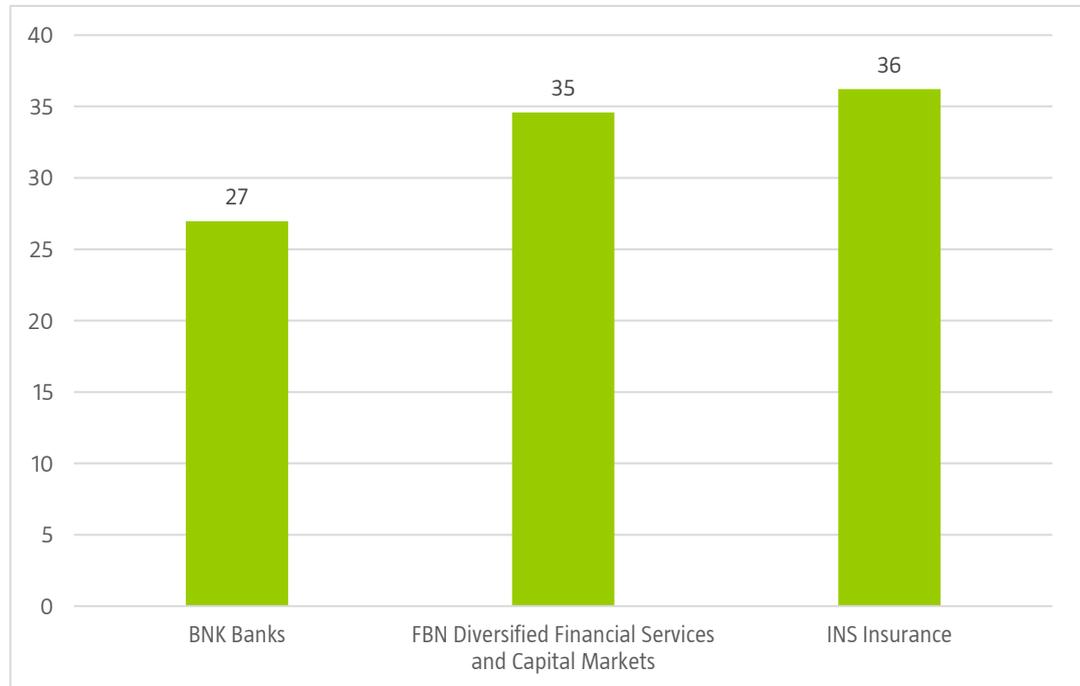
### 3.3 Sustainable Finance

Financial institutions have an essential role to play in addressing sustainability challenges, facilitating the transition to a low-carbon economy, and in stimulating sustainable development. In identifying and addressing growing environmental challenges and the associated risks, financial institutions can benefit by leveraging their expertise in financial innovation. The opportunity to offer new financial instruments allows financial institutions to develop new revenue streams and build trust amongst stakeholders. The principal focus of this criterion is to look at the approach's companies are taking to integrate ESG into each of the business segments and to look at which innovative offerings, across all business operations (Retail Banking, Investment Banking, Asset Management, Security Exchanges, Underwriting, Insurance), are available.

The methodology for financials has been updated significantly in the 2019 CSA. The Sustainable Finance criterion has been introduced to replace the former 'Business Risks and Opportunities' criterion and the 'Controversial Issues, Dilemmas in Lending & Financing' criterion from the 2018 CSA. Previously, these criteria fell under the environmental and social dimension respectively, whereas 'Sustainable Finance' is now considered under the economic dimension given that the topics that are incorporated within this criterion span beyond only environmental and social issues only. The criterion impacts three financial industries, BNK Banks, FBN Diversified Financials, and INS Insurance. The questions focus on 1) the integration of ESG into each business segment, and 2) the ESG products and services offered. Due to the diversity amongst financials companies, we have developed a separate question for each business unit depending on the type of business area a financial institution is a part of. Therefore, companies are requested to only answer those questions which are relevant to their business; the threshold being whether that business segment represents more than 5% of the company's overall revenue. Each of the questions pertaining to the integration of ESG criteria, as well as the ESG products/services offered for the

respective business segments provide additional points to those companies that have the information publicly available.

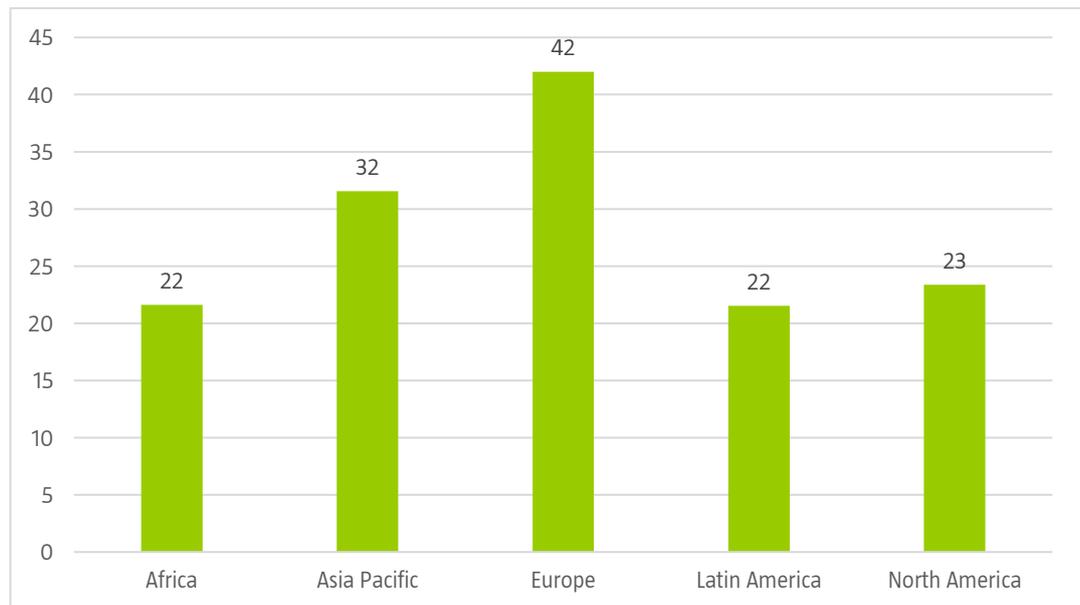
Figure 13: Sustainable Finance: Average Criterion Scores by Industry



Source: SAM CSA 2019

*Figure 13 illustrates the average performance of companies in the three industries for which this criterion is applicable. Of the three industries, Insurance companies have achieved the highest average score, followed very closely by Diversified Financial Services and Capital Markets. This highlights that compared to Banks, companies in the Diversified Financial Services and Capital Markets industries show greater integration of ESG criteria into their relevant business segments and products/ services. Banks performed the worst, suggesting that integration of ESG criteria into business segments and products/services is lagging.*

Figure 14: Sustainable Finance: Average Criterion Scores by Region



Source: SAM CSA 2019

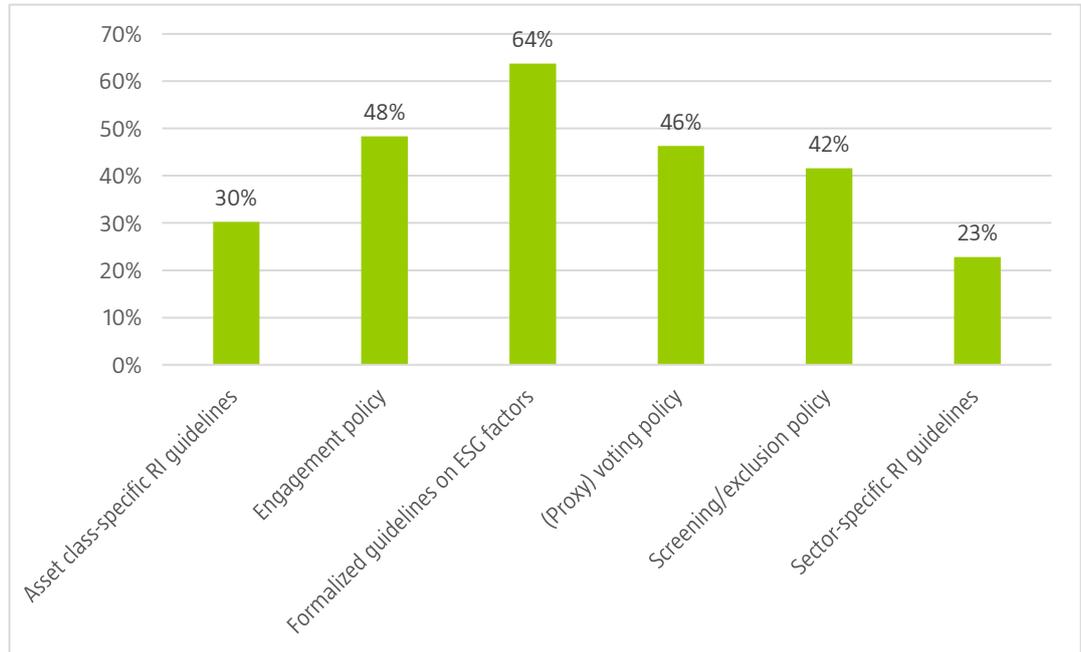
*Figure 14 shows the average performance of companies within the Financials sector across different geographic regions. Of the 354 companies assessed, Figure 14 shows that European companies led the way, closely followed by companies in the Asia Pacific region. Africa, Latin America, and North America lag behind the companies from other regions in terms of ESG criteria integration.*

### 3.3.1 Integration of ESG Criteria in Asset Management

The purpose of this question is to assess how financial institutions are integrating ESG aspects into their asset management business. Moving towards a sustainable finance model means that all business segments of a financial institution are expected to consider ESG aspects in their operations. This question asks for the Responsible Investment (RI) approach and related policies for companies active in the asset management business. This question represents one segment (Asset Management) which may be applicable to a company's operations. In this question, companies are expected to:

- 1) Provide evidence that the company's investment policy contains ESG aspects.
- 2) Specify the ESG aspects of the company's responsible investment policy (e.g. screening/exclusion policy, engagement policy...).
- 3) Indicate the asset classes covered by the company's responsible investment policy (e.g. listed equity, fixed income).
- 4) Indicate the coverage of the company's responsible investment policy as % of the total assets under management.

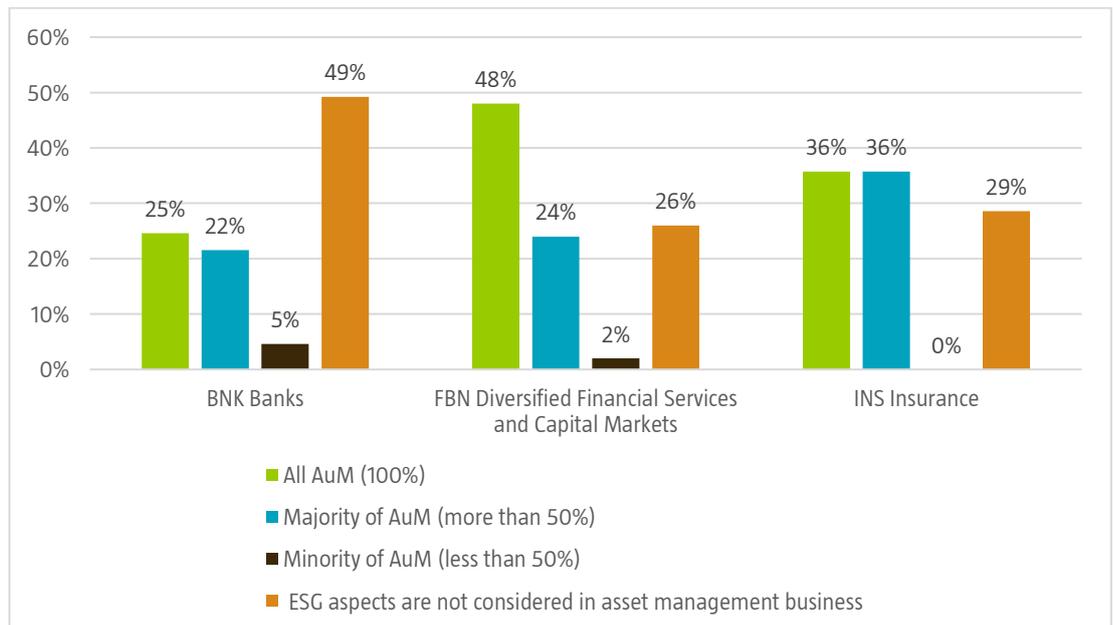
Figure 15: Integration of ESG Criteria in Asset Management: Which elements are included in your responsible investment approach?



Source: SAM CSA 2019

As shown in Figure 15, the elements that are most frequently included in company's responsible investment approaches are formalized guidelines on ESG factors, followed closely by engagement policy, (proxy) voting policy, and screening/exclusion policy. We however observe that fewer companies address elements such as asset class-specific RI guidelines, and less than one quarter of companies have sector-specific RI guidelines. Asset class- or sector- specific guidelines are not addressed by financials companies to the same degree as the other aforementioned elements.

Figure 16: Integration of ESG Criteria in Asset Management: What is the coverage of your Responsible Investment Policy (by Sector)?



Source: SAM CSA 2019

Figure 16 represents the coverage of the RI policy. Almost half (49%) of Banks have not considered ESG aspects in their asset management business at all, whereas almost that same percentage of Diversified Financial Services and Capital Markets companies (48%) have a 100% coverage of their asset management covered by their RI policy. Nevertheless, for each industry, we see a majority of assessed companies have some level of coverage of their assets under management ranging from all AuM to a minority of AuM covered.

Figure 17: Integration of ESG Criteria in Asset Management: What is the coverage of your Responsible Investment Policy (by Geographic Region)?



Source: SAM CSA 2019

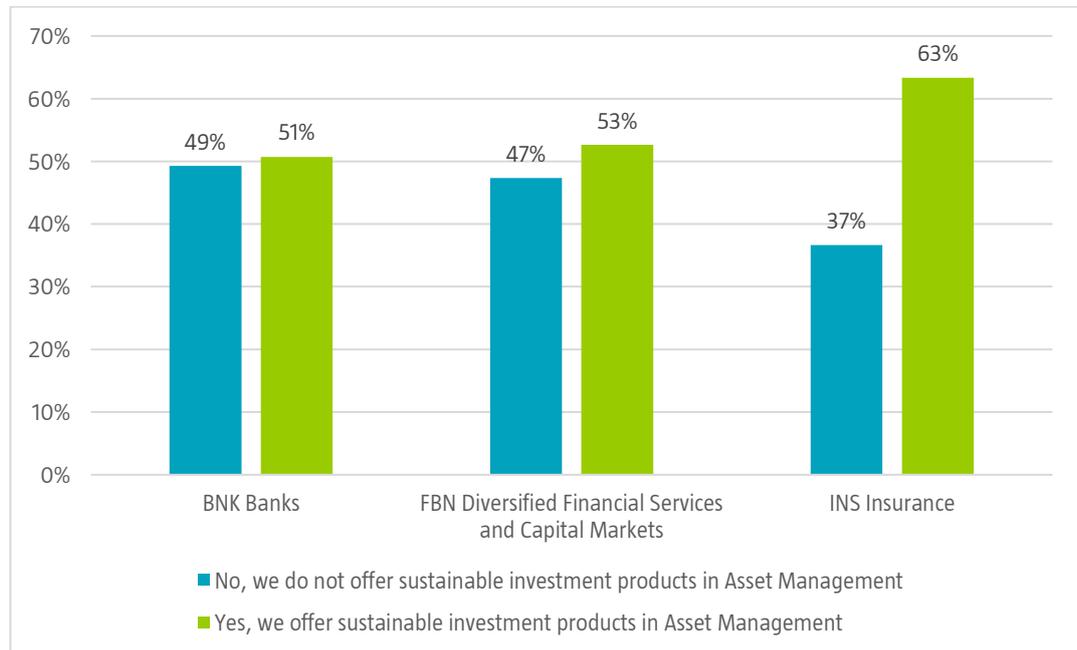
Figure 17 shows that companies in the Asia Pacific region, followed closely by Latin America, are lagging when it comes to their integration of ESG aspects. Europe and North America represent the greatest amount of companies that have coverage of at least a minority of their AuM by their RI policy. All regions, except for Asia Pacific, have a majority of their companies integrating ESG criteria within their asset management operations.

### 3.3.2 ESG Products & Services for Asset Management

With this question, we aim to find out which sustainable investment products are offered within the asset management division of your company. Companies are expected to:

- 1) Provide the asset under management (AuM) of responsible investment products
- 2) Provide the total assets under management (AuM) in the asset management segment
- 3) Provide the percentage of responsible investment products vs. total AuM in the asset management segment
- 4) Name the product categories of responsible investment products offered

Figure 18: ESG Products & Services for Asset Management: Does your company offer sustainable investment products (by Sector)?



Source: SAM CSA 2019

**Figure 18 shows that a majority of the companies for each of the three sectors offer sustainable investment products within their Asset Management operations. INS Insurance represents the greatest discrepancy between those that offer and those that do not, whereas FBN Diversified Financial Services and Capital Markets, and BNK Banks are more closely aligned between those that do and those that do not.**

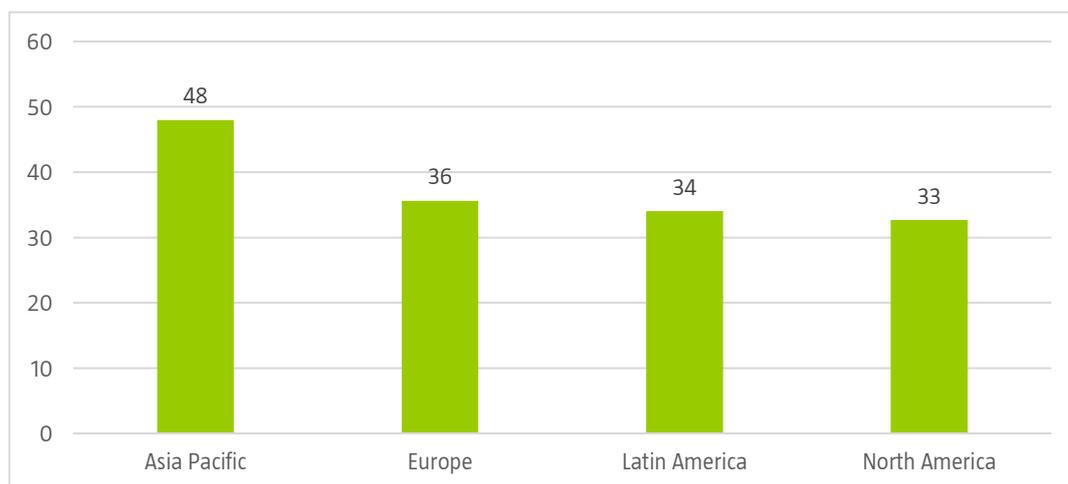
### 3.4 Energy Mix

The oil & gas industry is amongst the most emission intensive, with the production and use of oil & gas accounting for over half of global greenhouse gas emissions associated with energy consumption. Oil & gas companies are coming under increasing pressure to demonstrate portfolio resilience and adapt business models to align with a low-carbon energy transition. While reserves are key drivers for future earnings, they are at risk of becoming stranded assets in a low carbon future; a key concern for a growing number of investors. While it is still the case that oil & gas production and reserves are still the key drivers for value creation and future earnings (share price performance) in the Oil & Gas sector, fossil fuel companies need to decarbonize their business model in the long run; a trend which investors have caught on to as represented by a divestiture from certain activities (e.g. oil sands) in this sector. With these questions, SAM assesses the sustainability of the business model in both the short and the long term. We are looking at current production mix, reserves mix, and investment in cleaner energy alternatives, to measure how companies are adapting their business models in order to reduce dependency on fossil fuels, to demonstrate portfolio resilience, and to align with a transition to a low carbon economy.

In the context of the new Task Force on Climate-related Financial Disclosures (TCFD) reporting recommendations, and to capture companies' contribution to a low carbon economy, we reviewed the questions of the existing "Exploration & Production" and "Gas Portfolio" criteria and have replaced them with a new criterion: "Energy Mix." The Energy Mix criterion is composed of six questions, four of which provide additional credit for public reporting, and one requires full public disclosure, in a push for greater transparency reporting. Energy Mix includes 1) Oil & Gas Production, whereby we look to identify companies which have increased the proportion of gas in their portfolio and further separate oil sands production from more conventional sources to highlight company exposure to the higher cost and carbon-intensive resource. 2) Oil & Gas Reserves, whereby we assess both a company's access to crude oil and natural gas reserves to support their future production, and the exposure to stranded asset risk. 3) Oil Sands & Fossil Fuel Exposure, which addresses the extent to which a company's production relies on these sources of hydrocarbons and therefore how exposed companies are to potential risks associated with these sources. 4) Finding

Development and Production Cost where we examine the cost a company incurs in maintaining its hydrocarbon reserves, and the sensitivity of a company to changes in oil and/or future carbon prizes. 5) LNG Capacity, which examines a company's share of liquefied natural gas (LNG) in total upstream oil and gas equity production in the last fiscal year, which implies a stable and risk-diversifying company. And 6) Renewable Energy Production, through which we assess how companies that produce fossil fuels are beginning to prepare for this eventuality by investing in renewable energy sources for third-party consumption.

Figure 19: Energy Mix: Average Criterion Score by Region



Source: SAM CSA 2018 & 2019

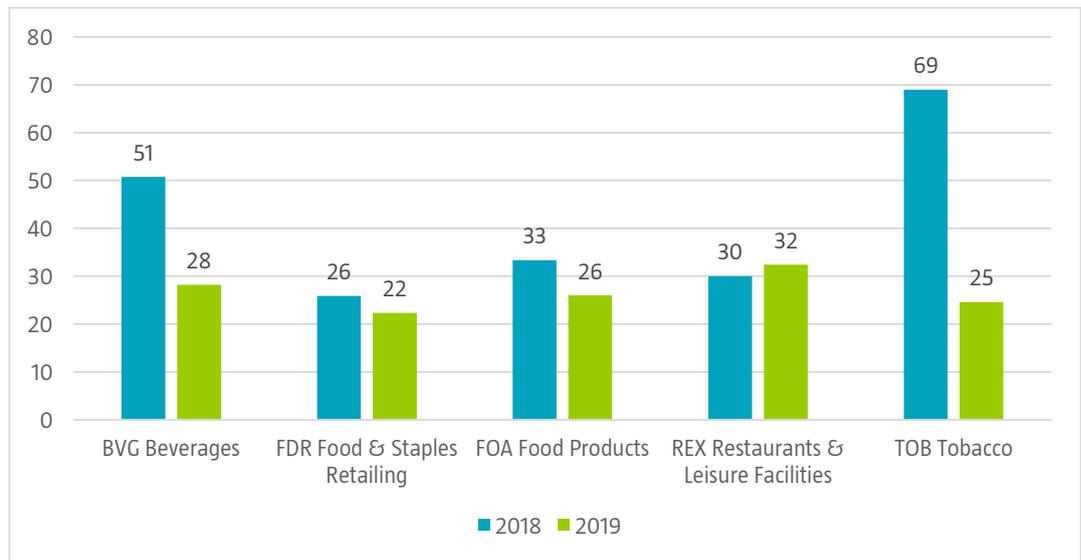
*As can be seen in Figure 19, it is noteworthy that on average companies within the Oil & Gas Upstream and Integrated industry in Europe, Latin America, and North America score quite similarly, whereas the Asia Pacific region records the highest average criterion score.*

### 3.5 Raw Material Sourcing

Food and beverage companies rely on stable high-quality agricultural raw materials including fresh water in their supply chain. It is therefore in their long-term interest to maintain stable supplier relations and promote sustainable agriculture. Agricultural raw materials, and in particular freshwater resources, are often limited and there is local competition between industry, agriculture, and private households to access these resources. The revised questions focus on how companies are managing these competing interests, and the extent to which they are working with their suppliers to promote sustainable agriculture.

The Raw Material Sourcing criterion has been updated to better address the topic of agricultural raw materials and commodities. In particular, the questions “Guidelines and Standards for Agricultural Commodities” and “Certification of Agricultural Raw Materials” have both been updated and apply to the following industries: Beverages (BVG), Food & Staples Retailing (FDR), FOA Food Products (FOA), and Tobacco (TOB). In particular, in 2019 we have combined the “Issues Covered in Environmental Guidelines and Standards”, to be included into “Guidelines and Standards for Agricultural Commodities” whereby companies are expected to **publicly report** on guidelines and standards on an inclusive list of agricultural commodities, including organic production, the protection of soil fertility, and the restricted use of pesticides, among others (see Figure 21 below). Secondly, regarding “Guidelines and Standards for Agricultural Commodities” we have updated the question to ask for disclosure of third-party certification and standards across different aspects and agricultural commodities including palm oil, soy, sugar, cacao, coffee, cereals, cotton, and tobacco, among others, and the % of annual production volume / procurement that is certified according to a third-party certification.

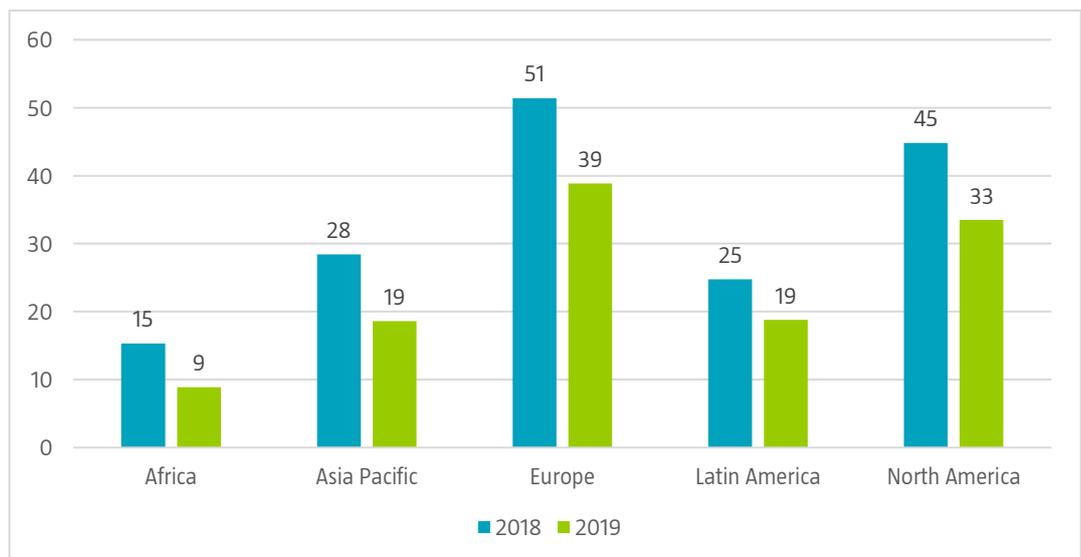
Figure 20: Raw Material Sourcing: Average Criterion Scores by Industry



Source: SAM CSA 2018 & 2019

Figure 20 represents the average criterion scores for Raw Material Sourcing between 2018 and 2019. We see decreasing average scores for each of the industries for which the updated questions applied, ranging from a 64% drop for Tobacco to a 15% drop in Food & Staples Retailing. Restaurants & Leisure Facilities is the only industry to record an improved score in 2019 with an average increase of 7%. This is explained in part by the more expansive disclosure requirements requested for the updated questions for the relevant industries, both in the public domain and otherwise, and the inclusion of the request for third party verification.

Figure 21: Raw Material Sourcing: Average Criterion Scores by Region



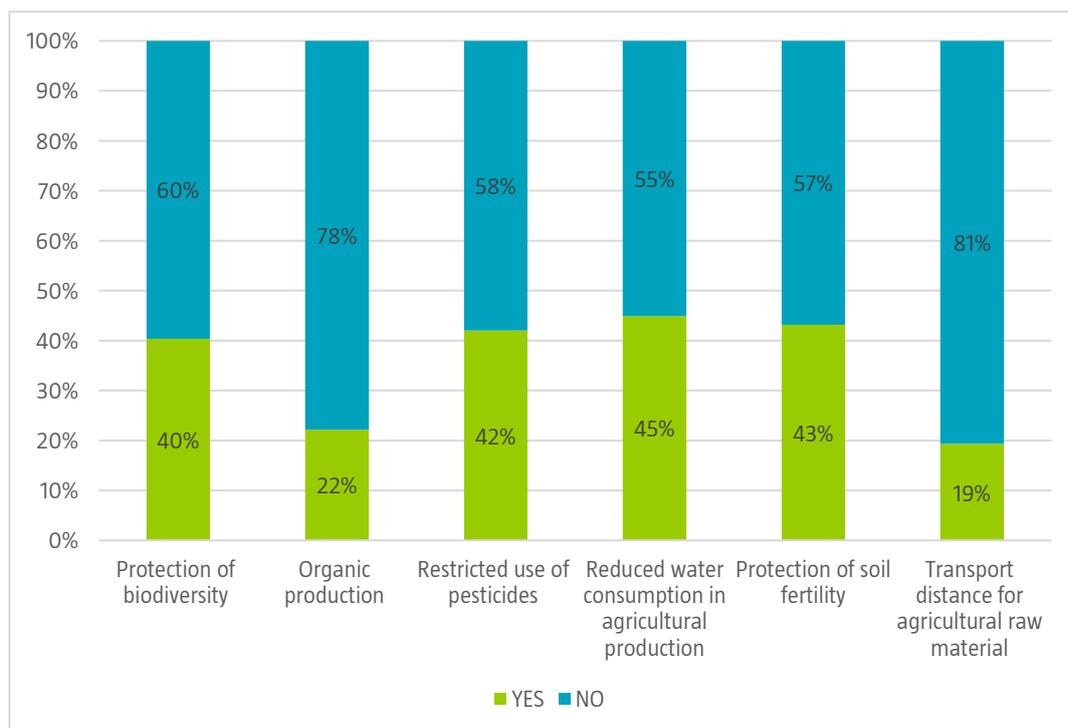
Source: SAM CSA 2018 & 2019

In Figure 21, similarly to Figure 20 above, it is observed that there is a consistent decline in average scores across each region, ranging from a 42% decline in Africa, to a 24% decline in both Europe and Latin America due to the fact that the requirements and scoring for these questions have become stricter.

### 3.5.1 Guidelines and Standards for Agricultural Commodities

As industrialized agriculture puts increasing pressure on ecosystems to provide enough quality agricultural raw materials, it is important for companies to create comprehensive guidelines and standards in order to preserve, and not destroy, the resources on which they depend. Through this question we ascertain what guidelines and standards the company has implemented to promote sustainable agriculture practices.

Figure 22: Guidelines and Standards for Agricultural Commodities: Topics covered in the guidelines or standards



Source: SAM CSA 2019

*Figure 22 indicates that protection of biodiversity, restricted use of pesticides, reduction of water in agricultural production, and protection of soil fertility are environmental topics that are addressed by more than 40% of companies within their standards for the agricultural commodities that they directly or indirectly procure. As opposed to the aforementioned standards which are more commonly addressed, we have observed that fewer companies address topics such as organic production, which however may still be explained by the lower demand for such practices. Less than one fifth of companies addressed guidelines for the transport distance for agricultural raw material. This year we have requested that these topics that are covered in the guidelines are publicly available.*

### 3.6 Living Wage

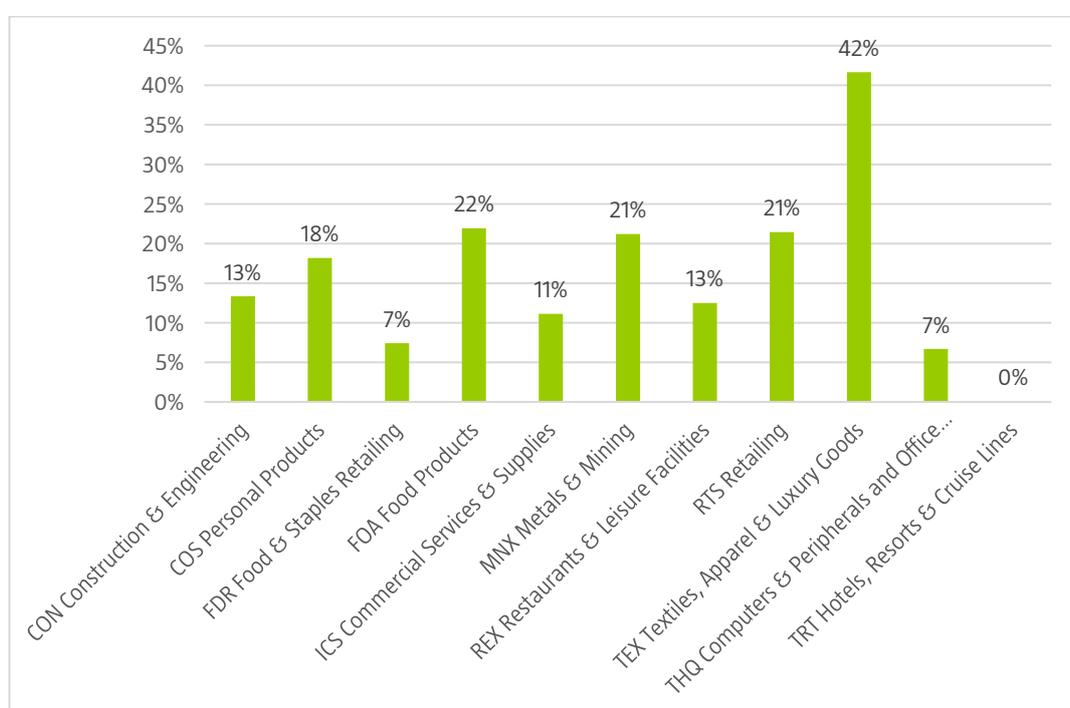
Over the last decades, governments around the world have enacted minimum wages to ensure a wage floor for all workers in their respective countries. In principle, the minimum wage could be expected to ensure workers and their families the minimum threshold of pay required to cover basic needs. However, minimum wage policies have proven to be less effective than originally intended. Over time, it has become apparent that the minimum wage set in many countries does not suffice in covering a family's basic needs. The term living wage refers to the minimum salary received by workers to cover their basic needs as well as those of their families. These basic needs include (but are not limited to) food, clothing, housing, health care and education.

The living wage criterion has been introduced this year in the future questions section for selected industries (11) that, due to the relatively high percentage of low-pay workforce in their operations or in their supply chain, are particularly exposed to labour issues. The criterion aims to identify those companies that have 1) adopted a living

wage methodology to ensure that their employees/ suppliers/ contractors and/or franchisees are paid a living wage (to learn more about the importance we place on Living Wage, please see the [Fair Wage article](#) featured in our 2019 Sustainability Yearbook). From an investor perspective, companies paying a living wage not only reduce their risk exposure to labor issues but also sustain long-term growth based on 1) greater ability to attract and retain talent, 2) lower absenteeism, 3) increased productivity, and 4) reduced exposure to reputational risks leading to customer dissatisfaction.

The Living Wage Methodology question provides additional credit for those companies that makes their methodology publicly available. Assessed companies are expected to name and describe the living wage methodology used, and provide supporting evidence and indicate if the information is available in their public reporting or corporate website.

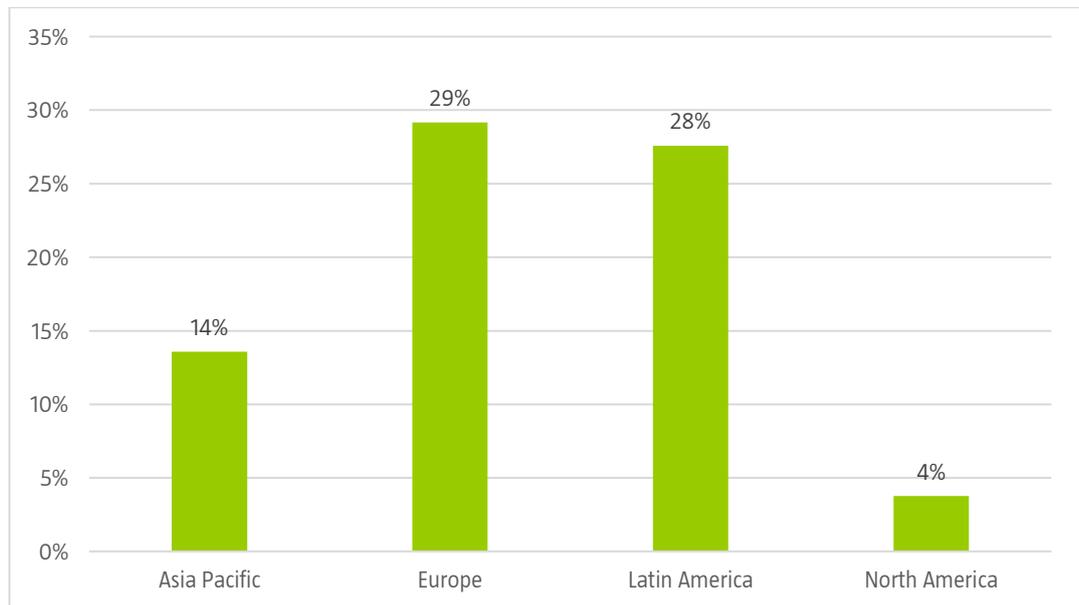
Figure 23: Living Wage Methodology: Percentage of companies which filled out the question which use a living wage methodology to assess the wage level of own employees/contractors/suppliers/franchisees



Source: SAM CSA 2019

**Figure 23 shows that 10 out of 11 industries that are particularly exposed to labour issues (and that responded to the voluntary question) have adopted a living wage methodology beyond minimum wage. The percentage of Textiles, Apparel & Luxury Goods companies that responded to the question which have a living wage methodology to assess their wage level represent almost double the percentage compared to the next closest industry, Food Products.**

Figure 24: Living Wage Methodology: Percentage of companies which filled out the question which use a living wage methodology to assess the wage level of own employees/contractors/suppliers/franchisees breakdown by region



Source: SAM CSA 2019

*Figure 24 displays the regional distribution of the companies assessed that have a living wage methodology in place. Europe and Latin America are approaching one third of the companies assessed in their respective regions to have a methodology in place. While less than 5% of those North American companies that have attempted to answer this question have a living wage methodology in place.*

# Outlook for 2020

We continuously develop our methodology to ensure that our CSA remains an insightful and challenging way to benchmark your company against peers. For 2020, we are focusing our attention on further aligning our questionnaire – where we deem appropriate – with global reporting standards and frameworks. For a number of years we have been internally mapping our questionnaire to standards such as the GRI Standards, the recently updated SASB Standards and continue to engage in discussions with our colleagues at CDP to ensure that we are aligned on important topics, and that we can leverage each other’s expertise. As we further develop the methodology for 2020, we will keep this alignment in mind to ensure that we can benefit from the growing amount of sustainability information available in the public domain, while encouraging companies towards greater transparency and disclosure. Of course, our attention also remains on financial materiality, as a result, we will endeavour to make the CSA more focused, more financially relevant, and more differentiating along the most relevant sustainability topics.

We look forward to engaging with you [via this fall’s webcast series](#), and as always, we welcome your feedback and your suggestions which ensure that we continue to develop the CSA in a way that creates value for you and your stakeholders.

**For any additional questions, please do not hesitate to contact us:** .....

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