

A Large Majority of Retail Clients Want to Invest Sustainably

Survey of French and German retail investors' sustainability
objectives

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INTRODUCTION

OBJECTIVES OF THE STUDY

Research objectives. The objective of this study is to help build an in-depth understanding of retail investors' expectations regarding "ESG issues" when they save money on investment products, saving accounts, life insurance contracts, etc. Most existing studies we reviewed before conducting the research frame the questions in broad terms (e.g. "Are you interested in sustainability?") or refer to products ("Are you interested in sustainability products?"), thus assuming that respondents understand the concepts, understand the products and trust the product management firm on its ability to deliver what is promoted. We have approached the topic differently and have tried to understand what types of outcomes consumers expect and why.

Working hypothesis. The research protocol (see below) is based on several working hypotheses:

1. Consumers' expectations regarding investments are largely driven by their **perception of the social norm**, on a topic for which there is no social norm yet established and things are evolving quickly. Therefore, we assumed that: i) the context of the questions and their framing matter a lot since many respondents are likely to answer whatever they think is the 'appropriate' response, and ii) it is impossible to create a 'neutral' environment and set of questions. We have therefore rather tried to test the effects of different 'biases'.
1. Most consumers **do not understand ESG-related concepts and do not trust financial institutions**. Consequently, testing their appetite for concepts designed by the industry (e.g. an "SRI fund") creates a circular effect. We have therefore rather tried to assess the expected outcomes and motivations.
1. In contrast with many industry surveys, we **did not assume that consumers prioritize the optimization of returns over social and environmental objectives**. We have rather adopted an agnostic approach to the topic, while acknowledging that there might be a gap between survey results and real-life decisions.

Connection with the public policy debate. This study is meant to help integrate sustainability-related questions into the suitability assessment test conducted by financial advisors. Based on the findings of our previous study on the topic¹, the EC High-Level Expert Group recommended that these questions be integrated, and the EC introduced reforms of the related regulation (Delegated Act on MIFID and IDD – see box for details). The supervisors in charge (ESMA and EIOPA) are therefore currently designing guidance on the topic. In parallel, the EC is currently designing an Ecolabel for financial products – see our paper on the topic².



FINANCIAL PRODUCTS 'SUITABLE' FOR INVESTORS' OBJECTIVES

It is an essential duty of financial market participants to ensure that the products they offer to their clients are specifically suited to them. In order to enhance investors' protection against mis-selling, MIFID II strengthened this obligation, especially with regards to their investment objectives: "*When providing investment advice or portfolio management, the investment firm shall obtain the necessary information regarding the client's or potential client's (...) investment objectives*" (MIFID II Art. 25)

The EC's Delegated Regulation then specified that "*The information regarding the investment objectives of the client or potential client shall include, where relevant, information on the length of time for which the client wishes to hold the investment, his preferences regarding risk taking, his risk profile, and the purposes of the investment*" (Delegated Regulation (EU) 2017/565 Art. 54)

As demonstrated by surveys and academic research (see below), most retail investors wish to have a real environmental impact as one of their non-financial "*investment objectives*". This reasoning led to the conclusion that the lack of inclusion of non-financial objectives to the suitability assessment performed by most of the market participants is inconsistent with the spirit of MIFID II and can potentially qualify as mis-selling. In response, the EC recently issued a draft delegated act proposal to confirm that ESG objectives must be included in the scope of the suitability assessment.

1. Message in a Bottle, 2Dii (2017)
2. Impact-washing gets a free ride, 2Dii (2019)

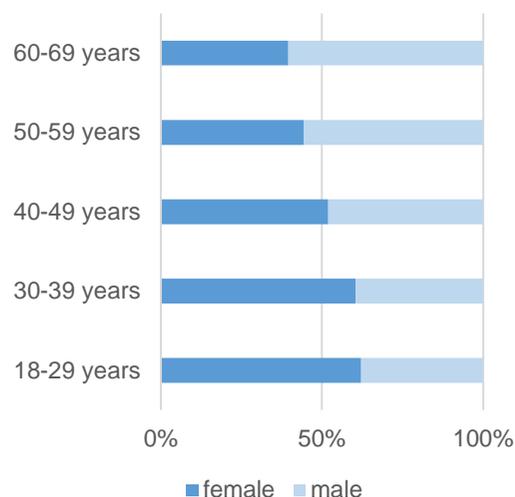
RESEARCH METHODOLOGY

After reviewing the existing literature on the topic, we conducted the following activities in France and Germany between February and November 2019:

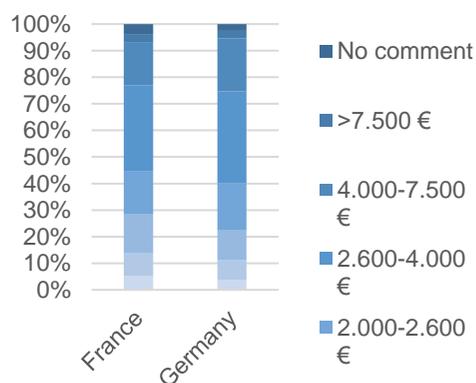
- **Survey 1.** In the first survey (covering 1,000 people in France and 1,000 people in Germany), we asked consumers about their social and environmental expectations; the related motivations and preferences for certain investment techniques; and their willingness to pay fees to get their objectives implemented. Two versions of the same questionnaire were submitted to two sub-groups: In the first one, the questions were framed in a way that creates a bias against integrating social and environmental criteria, in the second, the opposite bias was introduced.
- **Survey 2.** In the second survey, we asked another panel (covering 1,000 people in France and 1,000 people in Germany) more precise questions about expected outcomes and their preference for different hypothetical products associated with different environmental benefits. We also tested the level of understanding of the questions themselves and the marketing claims usually associated with ESG/green products. In this survey as well, we created two versions of the questionnaire: the first one first asked detailed questions about the objectives and expected outcomes of respondents and then tested their preference for certain products and the interpretation of claims; the second survey was designed the other way around.
- **Interviews.** A series of 100 one-hour interviews were conducted, primarily with French retail investors, to test and debrief their understanding of the questions asked in the surveys, as well as to further explore their motivations and the potential biases introduced by our questions.
- **Focus groups.** A series of 10 focus groups of 10-12 participants, gathering 100 people were conducted in France and Germany, with the objective to further explore retail investors' expectations and to better understand the effects of social norms on individual representations.
- **Mystery shopping visits.** The approach was completed by a series of 100 mystery shopping visits in retail banks, conducted primarily in France, to notably understand how financial advisors contribute to frame or reframe expectations spontaneously expressed by their clients.

Limitations. We consider our findings to be 'preliminary'. Indeed, we assume that the framing of the questions influence the perception, preferences and eventually responses, which calls for much more research on the topic. Besides, and despite what first behavioral science experiments suggest, we acknowledge that there might be a gap between survey results and real-life choices. Finally, our sample is skewed towards low- and medium-income groups, thus calling for similar surveys on high-income clients.

Profile of respondents



In both studies, we focused on the group of retail investors. We defined these as people at the age of 18 or older who have at least 1.000 € of savings or save monthly at least 100 €. Survey 1 as well as survey 2 have a bias with regards to age and gender: Men in the sample are older than women as can be seen above, exemplarily for one of the studies.



In the 2nd survey, participants from France are a little less rich than those from Germany. Median income for both countries nevertheless is 2.600 to 4.000 €. In the survey on consumer preferences, survey 1, net income was given in annual numbers, again with German users being slightly richer than French ones: Germans had little over 25.000 € while French had little below that value.

RETAIL INVESTORS SAY THEY WANT TO INVEST SUSTAINABLY

Two-thirds of retail investors say they want to invest sustainably. Our qualitative and quantitative surveys (see next pages) show that 65% to 85% of retail investors in Germany and France say they want to invest more sustainably when they are asked.

Comparison with other studies. We have reviewed a dozens of surveys, research papers and studies authored by third parties dealing with retail investors sustainability objectives. These results are broadly aligned with our findings (see figure 5): the stated interest in investing sustainably ranges from 50% to 80% with an average of 70%.

Framing. In our surveys, the context and framing of the questions considerably influence the responses:

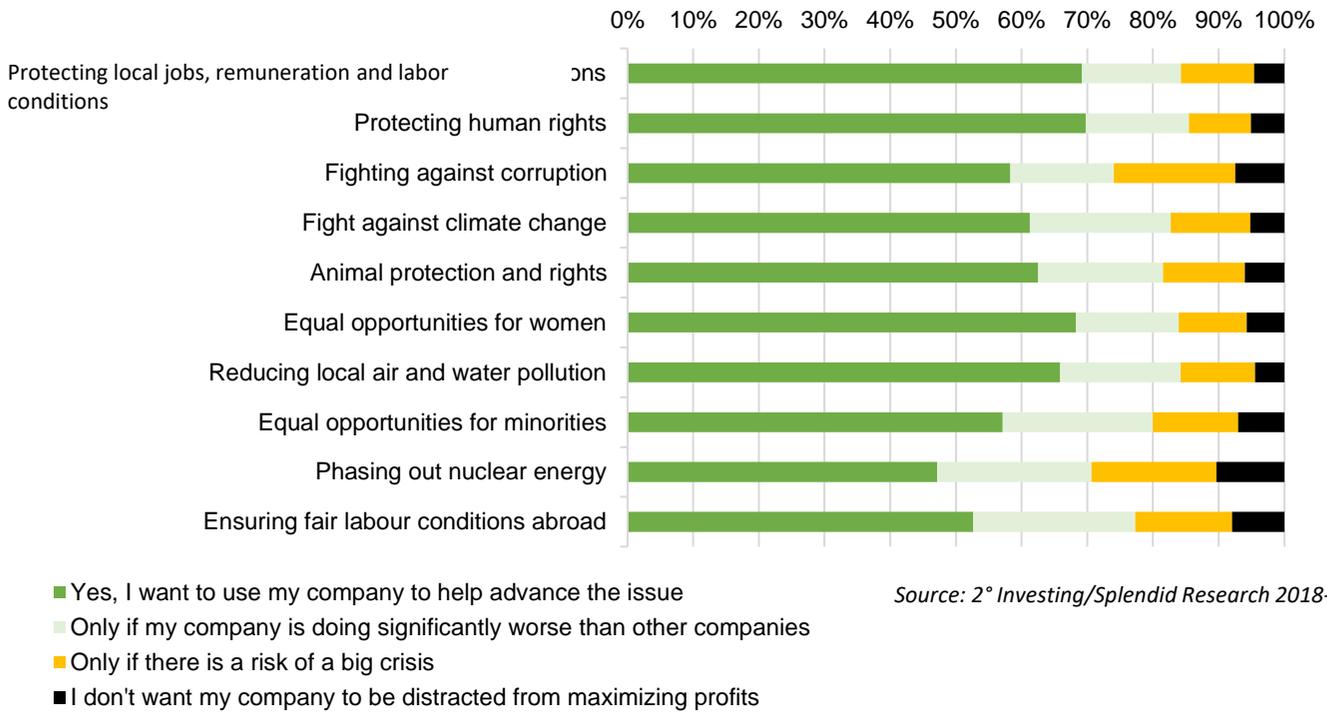
- The more concrete the question and options proposed, the more interest is generated;
- On the other hand, broad concepts associated with products (e.g. “impact fund”) seem to trigger suspicion.

Many studies and meta-analyses reveal that only 1 to 5% of all information that we are exposed to, is processed consciously. As a result, the more concrete and specific questions and answering options are framed, the easier it is for participants to answer it. Answering however requires basic knowledge of the topic in order to avoid confusion. Precise questions, associated with educational content appear to lead to a higher level of stated interest for sustainable investments than short and more vague questions.

Factors. In line with other studies, we also found that interest is correlated with the age: investors under 40 are more likely to interpret the questions correctly and to be interested. Gender also seems to matter, but to a lesser extent.

Implications. The results suggest a large disconnect between the prevalence of non-financial investment objectives among retail investors on the one hand, and the questions asked by financial advisors during the suitability test on the other. Indeed, recent mystery shopping visits conducted in France by our team suggest that questions are almost never asked, and when clients bring up these issues, the recommendations are not suitable. These results therefore highlight the urgency of upgrading the suitability test procedures, potentially ahead of the implementation of the MIFID/IDD reform.

You inherit a big multinational company and become the main shareholder and decision-maker; would you advance some of the issues below?



Objectives. This question’s objective is to understand individual priorities in a context where ‘real-life’ obstacles (concerns about effectiveness, greenwashing, lower returns, etc.) are not part of the equation. The topics and the scale of potential responses mirror the different approaches and ESG categories of asset managers and ESG data providers. This question also aimed to create a context favorable to action for the next questions:

- By making the concept of sustainability/ESG as concrete and as customized as possible (the respondents will then be asked about issues specific to their topic)
- By locking respondents into choices exclusively based on their values.

Factors influencing responses

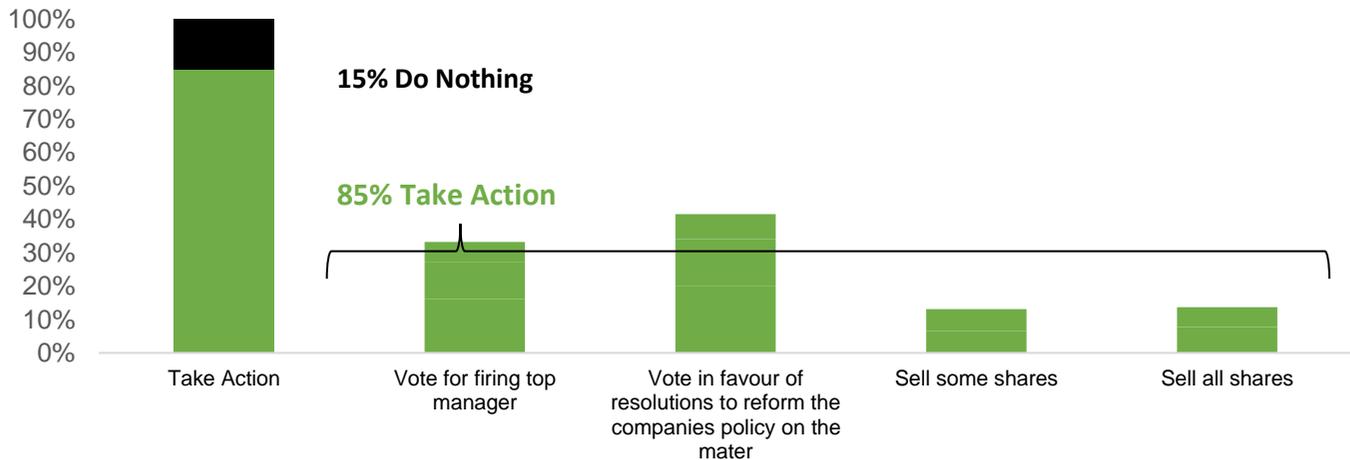
French and German participants do not differ with regards to the issues they would advance, with the exception of nuclear power, which is a bigger concern in Germany than France.

Indicators of wealth (total savings, net income as well as monthly saving rates) are a more important determinant of the answers: the wealthier a person is, the more concerned they are.

Other important factors include, for instance, age and voting habits: younger participants appear to be more committed.

There is also a correlation between mobilization as a citizen and as a saver. In contrast with other factors, there is an association with specific topics: e.g. people who vote regularly care about topics that are geographically closer to them (fighting corruption and protecting local jobs).

2.1. How would you respond to ethical, social or environmental concerns with your investments?



Objectives. This question relates to equity portfolios. Here, we stress the existence of a concern and assume the client has the possibility to act (via the asset manager or directly): *“A part of your savings are invested in shares of companies. You are made aware that a number of these companies’ strategies involve bad practices on [topics]”.*

The question is associated with a short description of three specific examples of “concerns” on three topics (e.g. local jobs) that have been selected before as priorities by the respondents (see Fig.1). The selection of issues matches with controversies commonly associated with many companies in the average equity portfolio and covered by the press. We then offer concrete responses, associated with short explanations of the rational and educational infographics (see Fig.2.2). These responses cover the spectrum of possible techniques implemented by ‘socially responsible’ equity managers.

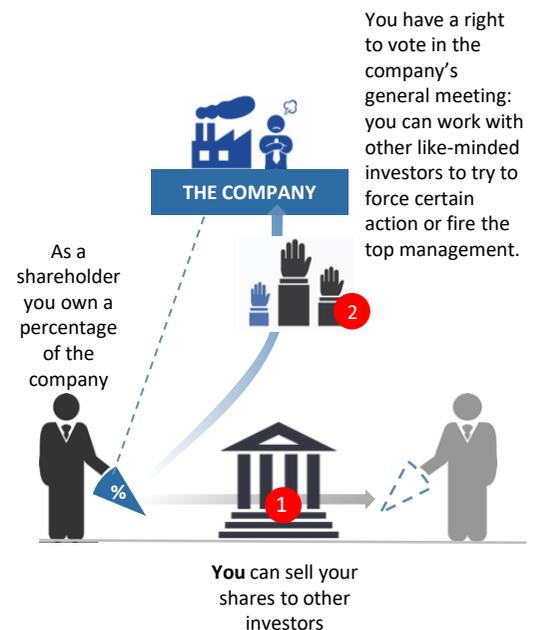
Framing of the question. We assume that this framing creates the sense that a response is ‘the normal thing to do’ given the theoretical choices expressed before. We also assumed that a precise description of the action makes the solution more appealing than a vague concept (e.g. “sustainable fund”). This hypothesis appears to be confirmed if we compare the high level of positive response to this question (85%) to the much lower level when actions are presented in a less concrete way (e.g. Fig 4).

‘Loaded’ language had no effect. To go further, we created two versions of the questionnaire:

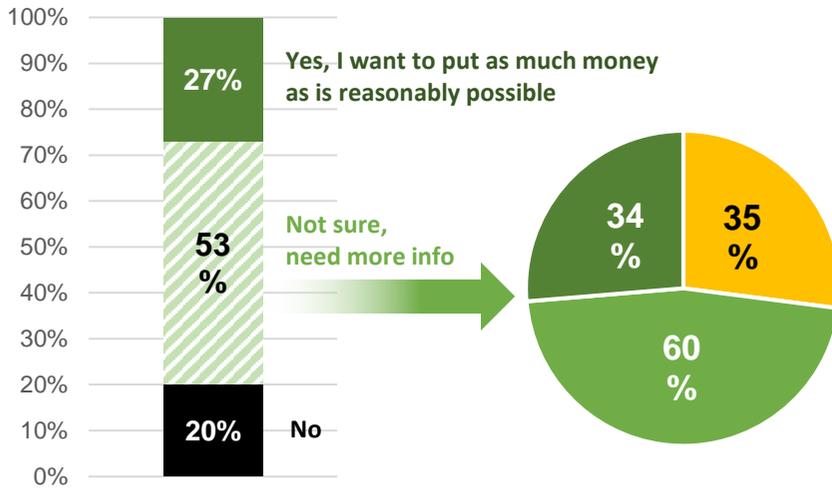
- in the first one, the controversies were described in general/vague terms (e.g. “You are made aware that some of these companies’ strategies involve bad practices on climate change mitigation”).
- in the second, the controversies are described in specific terms with ‘loaded’ language that can be found in the press (e.g. “You are made aware that some of these companies’ strategies involve actively undermining climate goals, by lobbying against the implementation of regulation and investing massively in new coal mining and power operations.”)

However, we did not notice a significant difference between the two subgroups.

2.2. Educational schema



3.1. Are you interested in investing a part of your money in “impact” funds?



3.2. Why do you need more info?

- I want to know more about the potential consequences on my profits
- I want to know what exactly are their activities and how they help with addressing these social and environmental issues
- I need to see hard evidence of their effectiveness in addressing these social and environmental issues

Objectives. This question was asked after the questions presented in Figs 1 and 2 (survey 1). Based on their responses to these questions, we assumed that consumers are primarily interested in having an “impact” (see section 2) and coin a concept aligned with these expectations (a concept that happens to be very similar to “impact investing”). By offering the “more info” option, we do not force a choice, with the potential consequence to “artificially” lower the number of “yes”. The answers offered in the second question are then based on the hypothesis that consumers fear greenwashing (see Chapter III).

Factors influencing responses. A noticeable difference between German and French participants was their approach to uncertainty: while the French were more often decisive, in one or the other direction, German participants were more interested in getting more information before making a decision. We also tested for socioeconomic factors like age, wealth and education. With regards to the other questions, we found that younger participants are generally more interested in learning more about sustainable products.

No effect of ‘loaded’ language. For both subgroups, descriptions of the “impact funds” were associated with an infographic and short description (Fig 3.3): “Your money invested in “impact funds” will fund entrepreneurs who start a business that help to fix ethical, social or environmental issues. Like all start ups, these companies can become extremely profitable or not succeed” and focus on three topics that have been previously prioritized by each respondent (see fig 1).

- However, in a first version of the questionnaire, the activities of the funds are presented in generic terms (e.g. “Developing solutions to fight against climate change”); whereas
- In a second version, the wording is specific (e.g. “Developing breakthrough technologies to produce efficient, clean and cheap batteries for electric cars and bikes”).

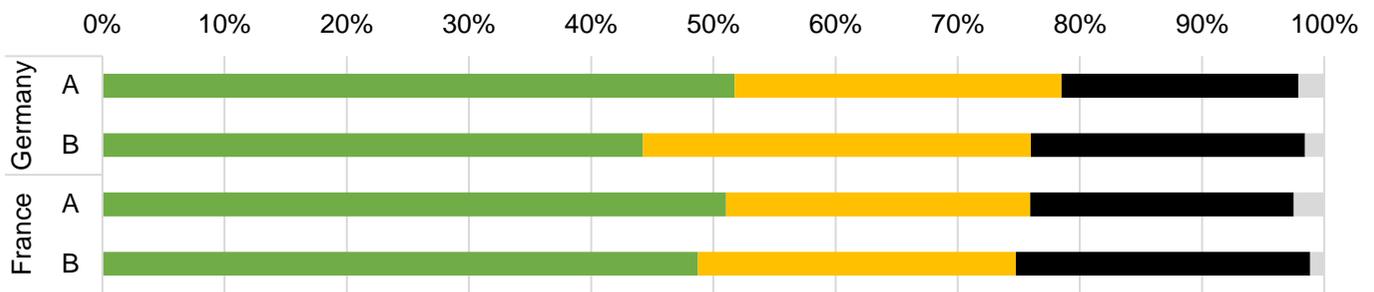
Like for the previous question, we did not find a significant difference between the responses of the two subgroups.

3.3. Educational schema



Your money invested in “impact funds” will fund entrepreneurs who start a business that helps to fix ethical, social or environmental issues. Like all start ups, these companies may become extremely profitable or may not succeed.

4.1. Do you want to invest in financial products that take into account environmental criteria?



- Yes, I am potentially interested and want to know more about these products
- Only if it clearly contributes to increase the financial returns of the products
- No, even if these products have better financial returns
- I don't understand the question

Objective. This question was asked in a separate survey (survey 2) with only a very generic introduction about the topic. It was framed as a preference for certain products, thus obliging the respondent to make assumptions about what those products are and how effective they are. We only focus on the environmental dimension.

Results. The level of interest expressed in this question is significantly lower than for Figs 1-3. Our assumption is that it is related to the fact that: i) we stress the risk of lower returns in the options offered, and ii) more critically the fact that the question is framed as a preference for a category of products that are very vaguely defined.

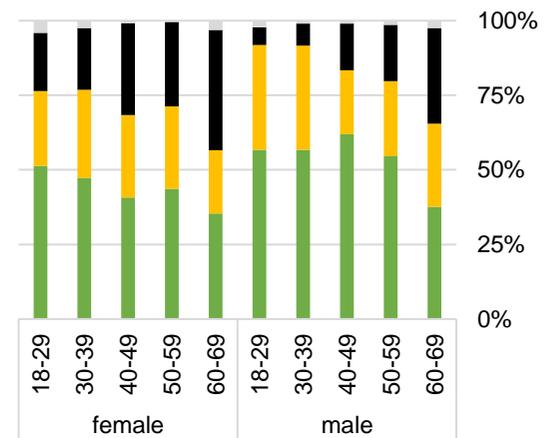
Factors influencing responses. As shown in Fig 4.2, age and gender appear to be important factors. Both men and women (particularly younger respondents) were interested in them. But while female participants lose interest with rising age, men do not lose interest in the same way. In the other direction, the neglect of these products altogether is far more pronounced for women and increases steeply with age. Country and the other socio-economic factors were not significant for this question.

Effect of awareness-raising on greenwashing risks. For the first subgroup (A), the question came right after questions on their profile (age, incomes, etc.). The second sub-group (B) was first asked about their interpretation of a series of green claims on financial products – including 4 misleading ones¹.

We assumed that this second subgroup would be more aware of what the products could be in practice and the associated risks of greenwashing, and therefore less willing to respond favorably.

The hypothesis was confirmed, even if the effect was limited to 3 to 7 points: the respondents in the second subgroup tended to be slightly less interested and a bit more skeptical, showing a greater interest in increasing their returns. The effect is more pronounced in Germany. This fear of greenwashing is further discussed on page 28.

4.2. Effect of age and gender



- I don't understand the question
- No, even if these products have better financial returns
- Only if it clearly contributes to increase the financial returns of the products
- Yes, I am potentially interested and want to know more about these products

This survey was conducted on 1,000 active German and 1,000 active French retail investors in October and November 2019 by 2° Investing with Splendid research.

1. The Frequency and type of misleading claims was aligned with the current state of the market. See our upcoming paper on the "Compliance of Environmental Impact Claims Associated with 'Sustainable' Retail Funds" – 2dii 2020

Percentage of consumers interested in investing more sustainably in other studies

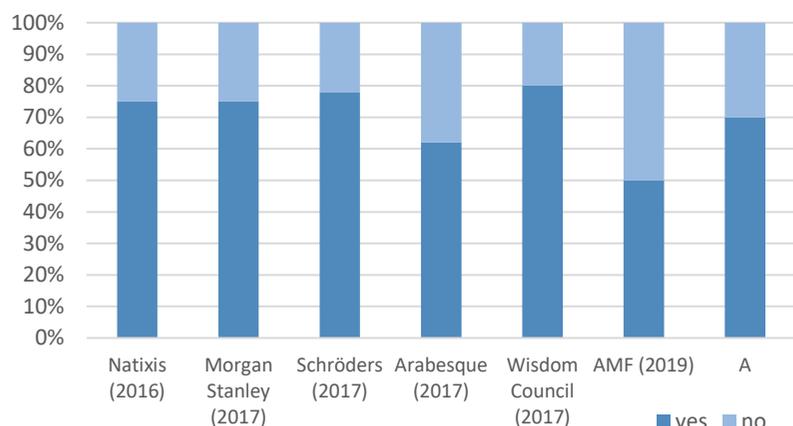
Comparison with other surveys. We have compared the range of responses for each question described in the previous pages with questions that were asked in the studies identified in the table below. For the analyses of the papers mentioned in the Table here below, we extracted similar questions from these studies and compared its results. The detailed overview of these analyses and results can be found on page 11 – 14. Please note that we will only address questions that were asked in more than one paper. This means that questions that were not comparable between different studies, will not be addressed in the overview (on page 11 – 14). Overall, our results are largely aligned with the findings from other organizations (see comparison p. 27). The specificity of our surveys was to further explore the expected outcomes, motivations and trade-offs. The analysis of other studies also suggest that age is a bigger factor than nationality.

Other papers. The table below also includes other types of research papers. The behavioral finance experiments (#11 and #12 in the table below) were left out of the analysis but are described separately on pages 25 et seq. The HLEG report (#8) and EC paper (#9) were also left out of this analysis since they are not consumer surveys, but discuss topics relevant to our analysis and reference various surveys.

Fig 5.1. Selection of relevant surveys and papers

(1)	Gutsche et al, 2017	Characterizing German (Sustainable) Investors	1001 representative German respondents	Link 1
(2)	Natixis, 2016	Mind shift: getting past the screens of responsible investing	7100 respondents, 22 countries	Link 2
(3)	Morgan Stanley, 2017	Sustainable Signals: new data from the individual investor	1000 respondents USA	Link 3
(4)	Schröders, 2017	Global Perspectives on sustainable investing	22000 respondents 30 countries	Link 4
(5)	Wisdom Council, 2017	Insights: responsible investing	1000 respondents	Link 5
(6)	Arabesque, 2017	The investing enlightenment	600 institutional investors 759 individual investors	Link 6
(7)	Wisdom Council/ UKSIF, 2017	Attitudes to Ethical and Sustainable Investment and Finance in the UK	1000 respondents UK	Link 7
(8)	HLEG, 2018	Financing a Sustainable European Economy	-	Link 8
(9)	EU, 2018	Distribution systems of retail investment products across the European Union	-	Link 9
(10)	Maastricht University 2019	“Get Real, Individuals Prefer More Sustainable Investments”	1,700 NL	Link 10
(11)	University of Cambridge 2019	“Walking the talk: Understanding consumer demand for sustainable investing”	2000 respondents USA	Link 11
(12)	DFID UK, 2019	Investing in a better world	2000 respondents	Link 12
(13)	Audirep/AMF	The French and responsible investing	1000 respondents, France	Link 13

Fig 5.2. Interest in sustainable investment



Our results. In our surveys, we test the interest through various questions (Fig 2.1; 3.1; 4.1) with different framing and focus. The stated interest range from 27% to 85%, showing how critical the wording of the question is. Specific questions associated with information on the implications of the answers lead to higher level of interest.

6 surveys compared. The general Interest in sustainable investing was measured in 6 out of 9 third-party studies we analyzed. Although not all answering options were disclosed, we were able to compare the results between the different studies.

50% to 80%. Results showed that on average 70% of the approached participants are interested in sustainable investing, with the study from Wisdom Council in the UK reporting the highest score (80%) as compared to the study from AMF, conducted in France, reporting the lowest score: 50% of the participants report being interested in sustainable investing.

Interest is not action. From a behavioral science perspective it is important to consider that there is a large gap between showing interest in something and actually acting. Meta-analyses from for example the theory of planned behavior, a model that is often used to predict factors that influence behavior, have shown at most 38% of behavior is explained by considering one’s intention towards the behavior (Armitage & Connor, 1991). This goes beyond measuring interest in sustainable investing but shows that there is a big gap between someone showing interest in something and actually taking the step to start investing sustainably. In addition, it is important to consider the social desirability bias (Edwards, 1953; Krumpal, 2013) in answering questions. This bias emphasizes that surveys might not be the best research methodology to tap into the deeper motives of retail investors concerning their investment behavior. The gap between hypothetical answers and investment decisions is further discussed on page 30-31.

Key References:

Armitage, C.J., & Conner, M. (2001) Efficacy of the theory of planned behaviour: A meta-analytic review *British Journal of Social Psychology*, 40 (4), pp. 471-499.

Krumpal, Ivar (2013). "Determinants of social desirability bias in sensitive surveys: a literature review". *Quality & Quantity*. 47 (4): 2025–2047. doi:10.1007/s11135-011-9640-9.

The labels in the Table refer to the studies as mentioned in Fig 5.1.

'A' is the total mean over all different studies.

Because framing and terminology differs across studies, an overview of the exact wording of the question and answering options is presented here below (if available).

Natixis (2016): Are you interested in sustainable investing? Answering options not disclosed.

Morgan Stanley (2017): To what extent are you interested in sustainable investments? Answering options: 4-point scale: not interested at all, not interested, interested, very much interested.

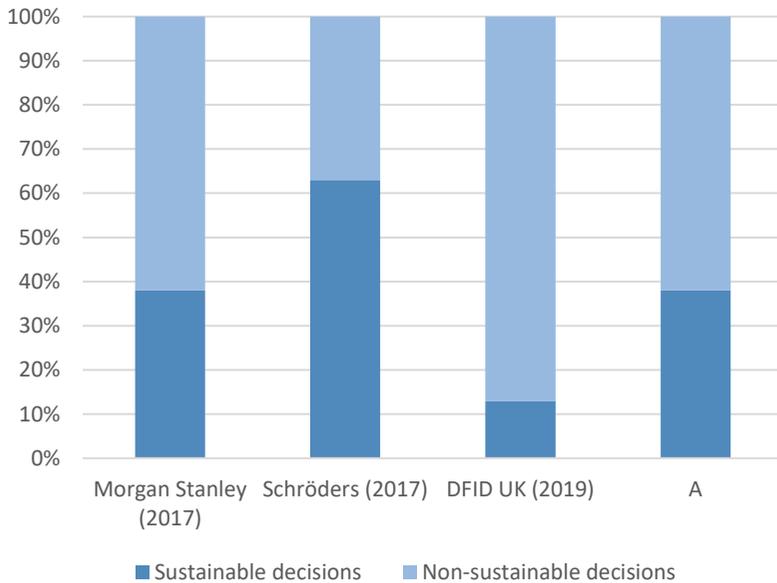
Schröders (2017): Compared to five years ago, how important has sustainable investing become to you? Answering options on a 5-point scale: significantly more important, somewhat more important, no more important, somewhat less important, significantly less important.

Arabesque (2017): Are you planning to approach your advisor about ESG investments the next 12 months? Answering options not disclosed.

Wisdom Council (2017): Do you want to learn more about sustainable investing? Answering options not disclosed.

AMF (2019): Are you interested in finding out more about sustainable finance products? Answering options not disclosed.

Fig 5.3. Past investment decisions



Three studies focus on past decisions suggest a gap. In three out of nine studies, participants were asked about their sustainable investment behavior.

On average, results show that 38% of participants from the studies that asked about sustainable investment decisions, did make sustainable decisions. However, the range of answers differed from 13% to 63%, which makes it hard to draw conclusions from these results.

The three studies all have a different geographical sample (i.e., USA, 30 different countries, and the UK), so we cannot explain the differences in outcome by geographical location or culture.

It should be noted that the questions (see right column) do not refer to specific products, letting room for (mis)interpretation.

What's interesting to consider when examining these outcomes, is that it is often assumed that people suffer from a social desirability bias, whereas the respondents in the DFID UK (2019) study are less likely to suffer from this bias, considering their relatively low answers.

Possible explanations for the gap. This variable is an interesting variable to match with actual sustainable investment numbers, that happen to be significantly lower than the stated interest. If we compare this, actual insights can be retrieved on how large the intention-behavior gap is. Another interesting research question then is whether this gap is primarily caused by tangible obstacles (e.g. lack of suitable products, lack of information, improper integration by advisors) or the tendency respondents might have to exaggerate their level of interest and eventually not walk the talk. Our first findings on tangible obstacles (see discussion page 35 and sister papers) suggests that they are significant enough to prevent interest to turn into investments for most clients. Regarding the psychological factors, the first behavioral finance field experiments (see page 30) suggest that the gap between hypothetical answers and real investment decisions are almost inexistent. These topics deserve to be further explored though.

The labels in the Table refer to the studies as mentioned in Fig 5.1.

'A' is the total mean over all different studies.

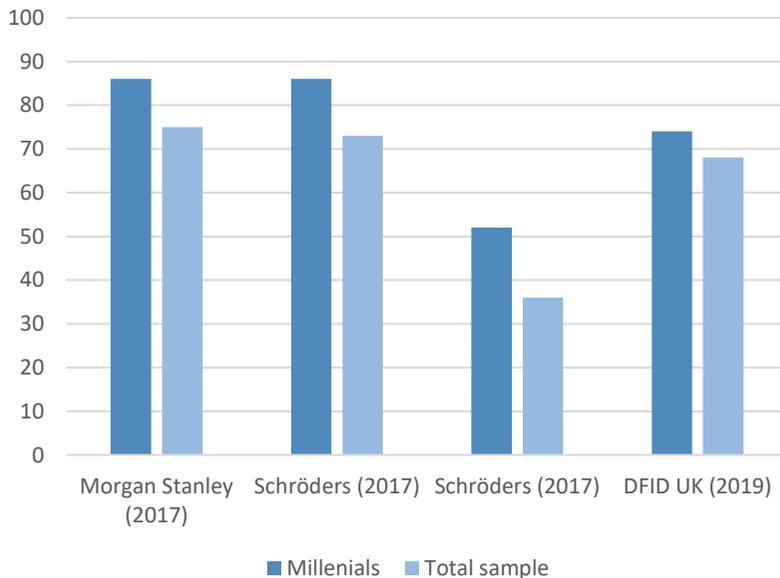
Because framing and terminology differs across studies, an overview of the exact wording of the question and answering options is presented here below (if available).

Morgan Stanley (2017): How much sustainability-minded investment decisions have been made? Answering options not disclosed.

Schröders (2017): Compared to five years ago, how have your investments in sustainable investment funds changed? Answering options on a 5-point scale, including 2 additional answering options: significantly increased, slightly increased, no change, slightly decreased, significantly decreased, used to invest but do not anymore, and never invested sustainable and don't intend to.

DFID, UK (2019): I currently have investments that are sustainable or non-sustainable. Answering options not disclosed.

Fig 5.4. Age as a factor



Four studies show more interest from Millennials. There appears to be an age gap between 'Millennials' on the one hand, and older age groups on the other hand in terms of sustainable investment interest. This gap has appeared in 4 out of 9 analyzed studies.

Results showed that millennials report 86% interest in or actual sustainable investment decisions at highest and 52% at lowest. When we compare this with the total sample, we find that 75% at highest show interest in, or actually made sustainable investment decisions and 36% at lowest.

A different anchor. From a behavioral science perspective we again refer to the intention-behavior gap that is often described and, in this case, also relevant.

However, the difference between age groups can also be explained by the fact that Millennials have grown up during the financial crisis, and therefore have a different 'anchor' in terms of expected returns. 'Anchoring' is a phenomenon that was first theorized by Tversky and Kahneman (1974). This concept suggests that an individual depends on an initial piece of information to make subsequent judgments. Those objects near the anchor tend to be assimilated toward it and those further away tend to be displaced in the other direction. Once the value of this anchor is set, all future negotiations, arguments, estimates, etc. are discussed in relation to the anchor. Because Millennials matured during the financial crisis, they have a different anchor in for example expected returns as compared to older groups, even though it is only the perception of people that sustainable investments lead to lower returns. The level of awareness regarding the impact of the finance sector in the real economy might also be higher.

Key references:

Tversky, A. and Kahneman, D. (1974). Judgment under uncertainty: heuristics and biases. *Science*, 185 (4157): 1124 - 1131

The labels in the Table refer to the studies as mentioned in Fig 5.1.

Because framing and terminology differs across studies, an overview of the exact wording of the question and answering options is presented here below (if available).

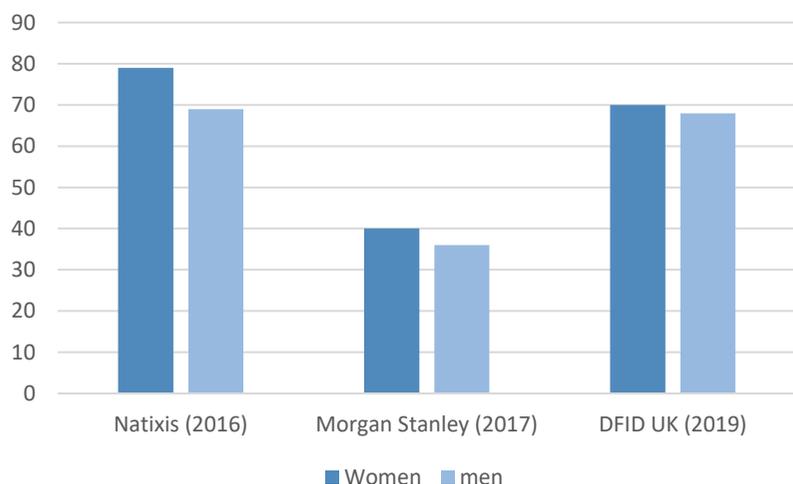
Morgan Stanley (2017): Are you interested in sustainable investing? Answering options not disclosed.

Schröders (2017): Compared to five years ago, how important has sustainable investing become to you? Answering options on a 5-point scale: significantly more important, somewhat more important, no more important, somewhat less important, significantly less important.

Schröders (2017): How often do you invest in sustainable funds? Answering options on a 5-point scale: always, often, sometimes, rarely, never.

DFID, UK (2019): I would opt for a sustainable investment if offered the choice. Answering options not disclosed.

Fig 5.5. Gender as a factor



Three surveys reveal a higher level of interest from women.

There also appears to be a gender gap: women appear to have slightly stronger preferences for sustainable investments as compared to men. This gender-gap was studied and found in 3 out of 9 studies.

Results showed that in those three studies, women always report higher preferences for sustainable investing than men, but the results differ significantly between them: in two studies women report 70% interest in sustainable investing, up to 79%, as compared to 69% and 68% for men. One study reported significantly lower scores, however still indicating that women have stronger preferences for sustainable investments (40%) than men (36%).

There is no clear explanation why these results are found, although it is good to again consider the intention-behavior gap. Furthermore, there are several studies that show that women are more risk averse and/or risk conscious as compared to men.

The labels in the Table refer to the studies as mentioned in Fig 5.1.

Because framing and terminology differs across studies, an overview of the exact wording of the question and answering options is presented here below (if available).

Natixis (2016): Would you like to see more sustainable investing in your retirement plan? Answering options not disclosed.

Morgan Stanley (2017): To what extent are you interested in sustainable investments? Answering options: 4-point scale: not interested at all, not interested, interested, very much interested.

DFID, UK (2019): I would opt for a sustainable investment if offered the choice. Answering options not disclosed.

Key Reference:

Unpublished report from Professor Neil Stewart

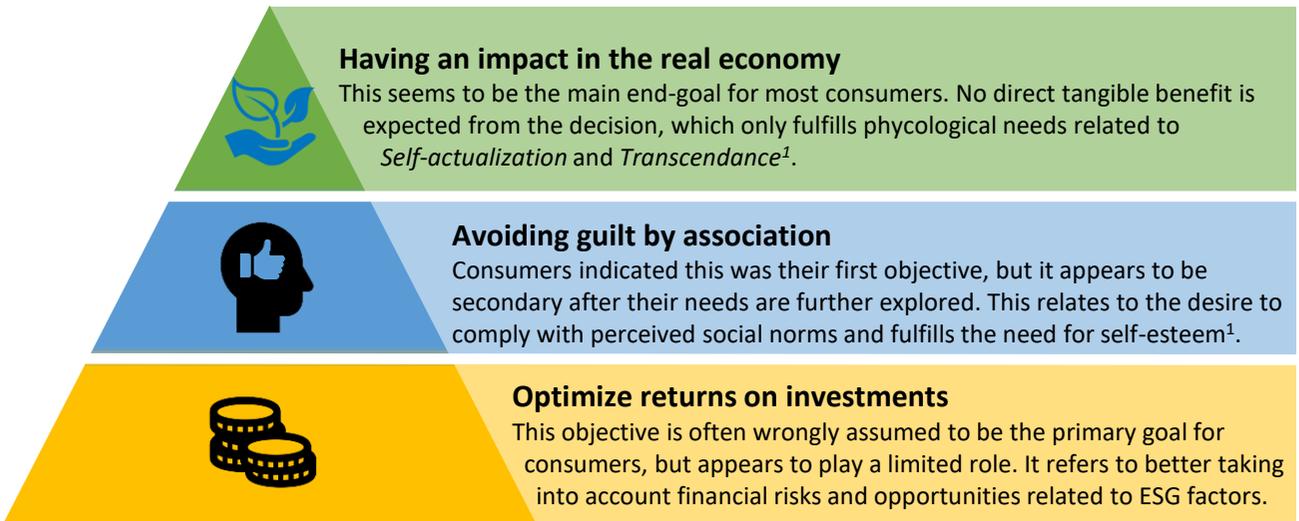
<https://www.wbs.ac.uk/about/person/neil-stewart>

RETAIL INVESTORS WANT TO HAVE AN ENVIRONMENTAL IMPACT

Looking beyond interest for sustainable products. “Being interested in sustainable investment products” (or whatever other umbrella term) doesn’t say much about what outcomes consumer actually expect and why. There is already a broad range of financial products integrating sustainability-related criteria (see page 31), pursuing very different objectives and mobilizing very different approaches. Most products have been designed for institutional clients, and nothing suggests that they all match with consumers’ expectations – in fact, our findings suggest most of them don’t. It is therefore necessary to dig deeper into consumers’ decision-making in order to prevent mis-selling.

A taxonomy of objectives. The main objective of this study was to help a panel of consumers “interested in sustainable products” identify the outcomes they expect to see and disentangle the means and the end. To do so, we have mobilized so-called *Means-End Research* techniques, through a combination of surveys, interviews and focus groups (see page 4). Our research led to the conclusion that, once the confusion between the means and the end is cleared, there are only three end-goals pursued by consumers:

Fig 6. Pyramid of objectives



1. Self-esteem refers to the desire to be accepted and valued by others. Self-actualization refers to the realization of one's full potential by pursuing goals. Transcendence is a late addition to Maslow's original hierarchy of needs and notably refers to altruism. *A theory of Human Motivation* (Maslow 1943), *The Farther Reaches of Human Nature* (Maslow – 1971).

The reign of confusion. Our research also reveals that most consumers are far from being able to articulate these objectives spontaneously. They get confused due to multiple internal and exogenous factors, summarized in the table below. The exogenous factors include misleading marketing practices of product manufacturers, sometimes amplified by distributors, but also the NGOs’ campaigns (e.g. Divestment campaign) and emerging regulations on sustainable finance (e.g. EU definition of “sustainable investments”) that tend to focus exclusively on certain investment techniques and instruments (e.g. exclusion, green funds, low carbon ETFs) and promote them, without prior assessment of their effectiveness in delivering the expected environmental outcomes. In other words, this situation increases confusion between the means and the end, leading to the creation of a series of ‘dogma’ that can eventually shape consumers’ behavior.

The most common issue is the expression by consumers of a preference for an investment technique (e.g. “I want a fossil-free portfolio”, “I want a green portfolio”), because it is perceived (sometimes wrongly) as the only means to an end (e.g. contributing to reduce production and consumption of fossil-fuels in the real economy). As a consequence, many consumers can, at first sight, express preferences for products that eventually appear to be unsuitable when their objectives are properly assessed.

Fig 7. Factors of confusion

Impact of investment strategies vs. impact of investees’ activities	This is the most common factor: people confuse the acquisition of financial assets (exposure) with investments in the real economy (capital expenditures), thus assuming that increasing/decreasing exposure automatically translates into an increase/decrease of the outputs in the real economy and therefore environmental impacts
Limited financial literacy	Most consumers lack the background knowledge and understanding of basic concepts necessary to articulate expectations and objectives. This situation prevents them from understanding the questions without prior briefing with educational material.
Limited time and brain space dedicated to the topic	Most consumers never dedicated time to think about the topic and articulate their expectations. In the context of a standard suitability test, the dedicated time (if any) is very limited (typically less than 5 min), and does not allow consumers to go through the reasoning necessary to clear confusion and articulate their expectations.
Misleading marketing claims	Our research reveals that many SRI products and most green funds are associated with inaccurate or confusing impact-related claims. In other words, they suggest that the investment strategy comes with positive environmental impacts, without any evidence that it is the case, and in most cases, evidence suggests it is not.
Misleading marketing concepts	Most marketing concepts associated with ‘sustainable products’ put the emphasis on an investment technique and metric (e.g. fossil-free fund, low-carbon fund, green fund) or even broader umbrella terms (e.g. SRI, ESG) rather than the end-goal. They tend to increase the confusion between the means and the end, and prevent expression of the actual objectives pursued.
Questions on preferences for certain investment techniques	When they ask questions about environmental/social expectations, financial advisors tend to frame them in terms of “preferences” for certain types of products (e.g. SRI, green funds) rather than objectives pursued and expected outcomes.
Lack of suitable products	Our review of the product offer suggests that there is almost no product specifically designed to address the needs of consumers as identified in this study. Notably, there is no adaptation of “environmental management systems” for asset management (see page 32)
Lack of trust in financial intermediaries	A large majority of consumers do not trust the claims made by financial intermediaries in general and the sincerity of their approach when it comes to delivering environmental benefits in particular. This sentiment is amplified by the inability of fund managers to substantiate environmental impact claims and measure the actual benefits.

The pivotal role of social norms. Consumer research on environmental objectives highlights a big paradox:

- On the one hand, when asked, consumers seem willing to sacrifice thousands of euros in order to pursue their environmental investment objectives (see page 23),
- On the other hand, most of them never dedicated any time and brain space to the topic or may have never considered the issue.

The explanation seems to lie in the pivotal role of ‘social norms’ at each stage of the decision-making process. In other words, when i) consumers face complex new questions, and ii) the expected psychological benefits (self-esteem, altruism) depend on social norms, they tend to do what they perceive as ‘the normal thing’ to do. This ‘auto-pilot mode’ can apply to specific steps of a rational decision-making process (see Fig 9), or the entire process (as illustrated in Fig 8). Such a situation obviously creates very fertile ground for misleading marketing and mis-selling.

Social norms in the making. An additional source of complexity relates to the fact that social norms are not yet established on the topic: for most consumers, it is unclear what ‘the normal thing to do’ is. Therefore, the way the questions on non-financial objectives are framed, and the very existence of these questions in the first place convey a message on what the norm is and are therefore likely to heavily influence consumers’ decisions. This situation led us to conclude that there is no ‘neutral’ way to frame the questions on non-financial preferences. To conduct the surveys (see next pages), we rather tried to formulate questions likely to induce a bias in one direction or the other, and then assess the differences.

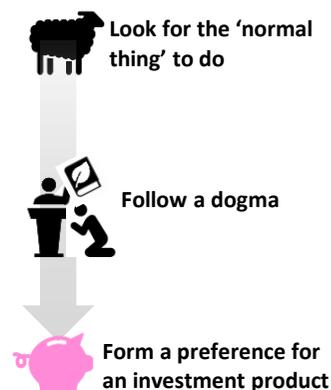
Hierarchy and articulation of objectives. One of our research questions was to understand the relative importance of different objectives, the priorities, and when objectives conflict with each others. Our main findings are threefold:

- **Optimizing return on investment** is the main driver of sustainable investment for a minority of consumers. For most consumers, this is not even an objective: they seem willing to sacrifice returns to invest more sustainably (see page 23).
- **Avoiding guilt by association** seem to be the main objective at first glance: when they are offered the possibility not to invest in controversial/brown activities or invest in positive/green activities, most consumers go for it. However, a closer look reveals a different picture:
 - Most consumers (wrongly) assume that increasing or decreasing the exposure of a portfolio automatically translates into an increase/decrease of the outputs in the real economy and therefore environmental impacts. However, once asked about their motivation and the outcomes they expect from this action, most of them revealed that they aim to have an impact in the real economy through their decision and changing their portfolio exposure is only a means to this end.
 - Other consumers see the action as a ‘second best’ option. They do not believe that it is technically feasible to have an impact, or they do not trust that intermediaries will deliver on their claims.
 - Finally, for a small minority, it is an objective in itself. It is either a religious dogma (e.g. exclusion of alcohol or pork production in Islamic investing irrespective of the effect on these activities in the real economy) or political dogma (e.g. exclusion of fossil-fuel irrespective of the effect on fossil fuel production).
- **Having an impact in the real economy** seem to be the main end goal for consumers. However, many of them are skeptical about the related marketing claims and more broadly the possibility to achieve this goal. As a result, some consumers tend to prioritize the two other objectives as a ‘second best’ outcome.

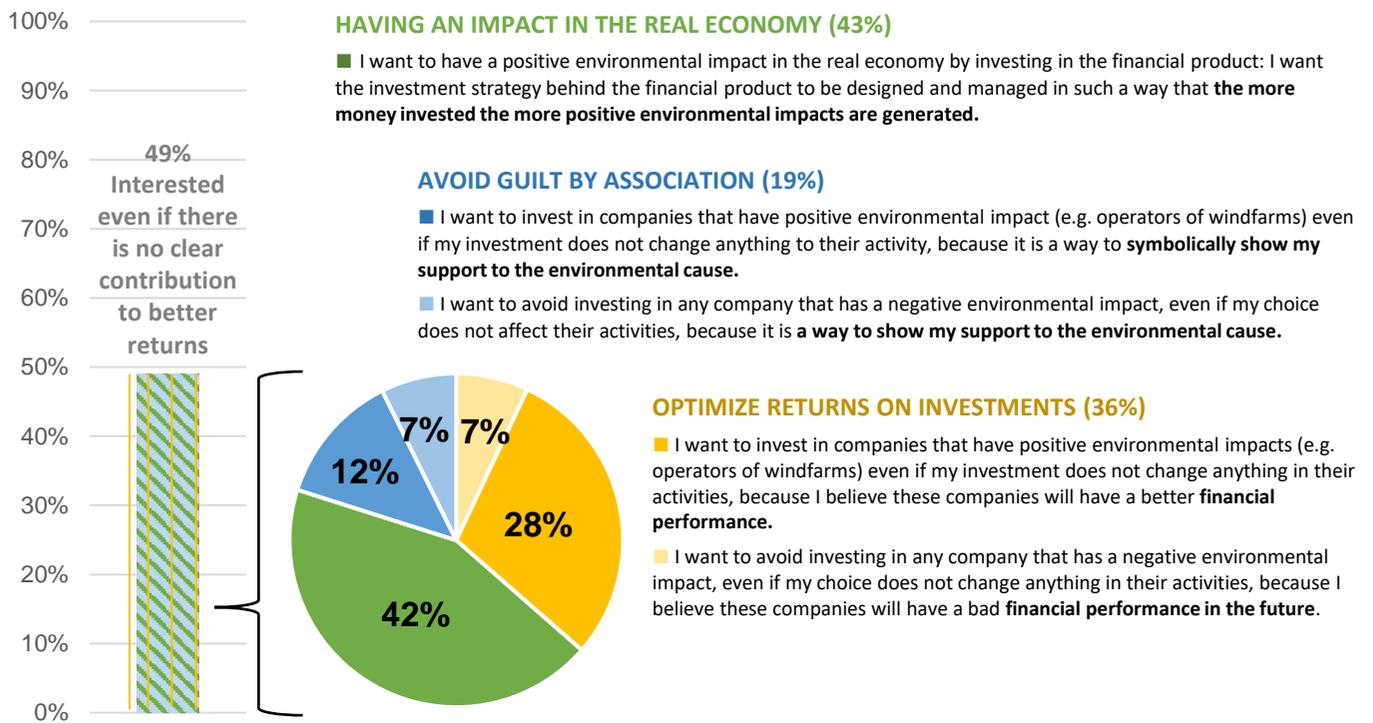
Fig 8. Rational decision-making process



Fig 9. Herd behavior



10.1. What would best describe your motivation for products taking into account environmental criteria?

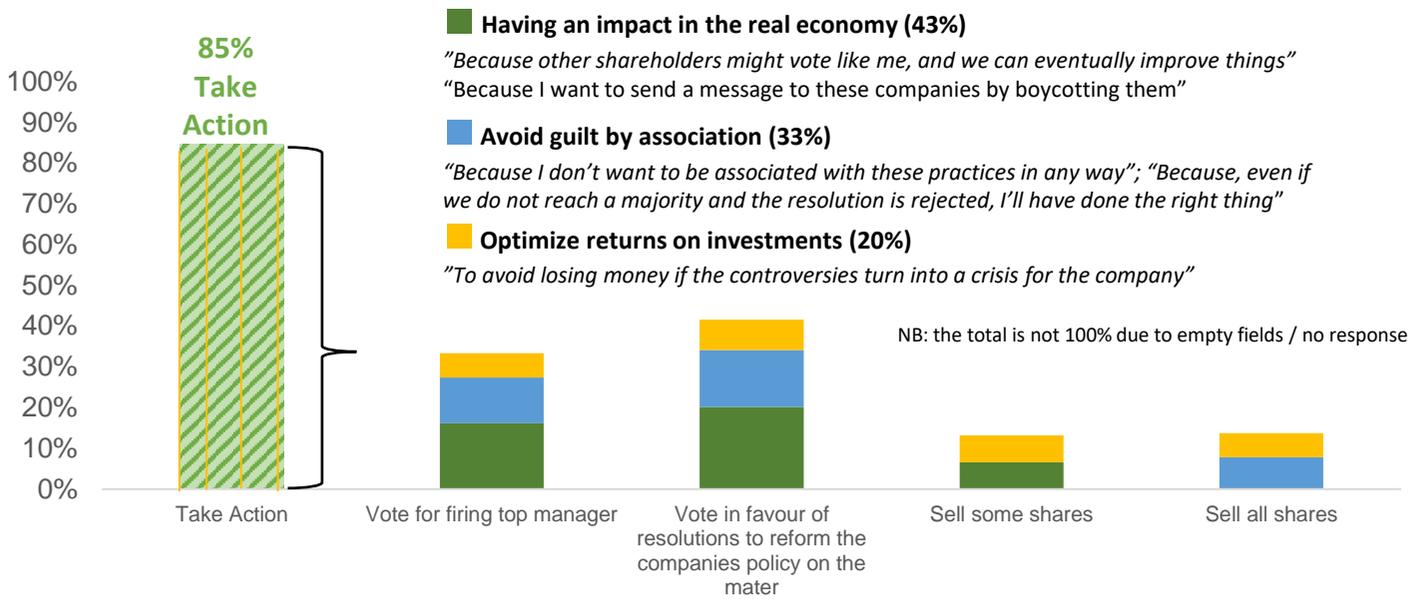


Objectives. This question follows the one presented in Fig 4 (page 9). We only asked respondents who expressed an interest for the products taking into account environmental criteria and wanted to know more. The objective is to understand the expected outcomes, and notably the relative priorities regarding the different objectives described in the Fig. 6 page 15. In the options proposed, we insisted on the difference between ‘being exposed’ to green/brown activities, and the effective contribution an investment strategy might or might not have on the development of these activities. Multiple choices were possible, and the respondents were then asked to rank them. This very theoretical question is followed by questions specific to each category of product (see Fig 12)

Results. As for other questions (see Fig 11 page 19) “having an environmental impact in the real economy” ranks first. The other conclusion is that respondents seems to be more interested in being exposed to ‘green’ than excluding ‘brown’ activities. Finally, the ‘optimization of returns’ appears to be a significant factor of motivation in this question, which is not fully consistent with the responses provided when consumers are asked about their willingness to sacrifice returns (see Chapter III). The question of trade-offs would obviously deserve further research.

Factor influencing responses. These two categories, age and gender, are important factors in the response. This goes along with the same factors that influence whether or not one is interested in these products to begin with. Female respondents are less often motivated by the wish to make an impact than their male counterparts, especially older ones. Interestingly, the same effect is observed regarding the belief in a better financial performance. Wealth related factors like net income, savings and savings rate have been tested, but do not play a significant role, and again, the motivations seem similar for French and Germans.

Why did you choose this/these action(s)?



Objective. This question followed the one presented in Fig 2. The objective is to understand the motivation behind the selection of a given 'action' (vote, sell shares...) as a shareholder. For each action, multiple rationale as well as open responses are offered to respondents to justify their choice. The responses have been categorized in three categories of objectives (following Fig 6 page 15): i) Having an impact, ii) Avoiding guilt by association, and iii) preventing financial risks. The full list is available in the annex. Although these categories are based on the results of literature review and focus groups, this selection obviously creates a framing effect compared to fully open responses.

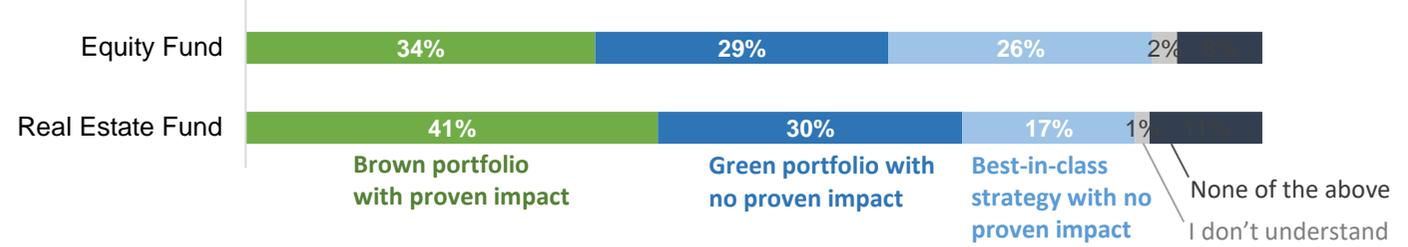
Results. More than in other questions, « having an impact » appears as the primary objective, before 'avoiding guilt by association'. This prominence is confirmed in the Fig 12. Apparently, the more concrete the question/choice, the more the respondents tend to prioritize 'having an impact'. On the other hand, when asked about preferences for vague concepts (see Fig 4), the respondents tend to deprioritize this objective.

Other factors influencing responses. As for other questions, voting behavior and age are factors that influence the reasoning. The younger the respondents, the more likely they are to favor voting rights. Similarly, active citizens, who vote frequently are more likely to reject certain business practices /activities. After controlling for age, gender, net income and voting habits, there is a difference based on country: Germans tend to be more optimistic regarding the effectiveness of collective actions, and refuse to be associated with certain business practices / activities more frequently than French.

FIG. 12

Which product would you prefer?

Assuming that it is recommended for reaching your financial objectives to invest a part of your savings in this category [of fund]. The following products (see table) are equal from a financial risk and returns perspective, only the environmental characteristics are different.



	Brown portfolio, with proven environmental impact	Green portfolio, with no proven impact	Best-in-class strategy, with no proven impact
Real estate fund	<p>First choice of 41%</p> <p><i>“Your money is invested in old residential buildings that are not energy-efficient and occupied by tenants. In each building, the fund manager implements a program to isolate every apartment (when tenants leave or are on vacation) and put solar panels on the roof. Then, once the building has been made energy efficient, it is sold so the fund can reinvest the money made in new buildings and start the same process again. This investment strategy helps to save energy and carbon emissions, and the fund manager will report how much each year. The figures are audited by the public environmental agency.”</i></p>	<p>First choice of 30%</p> <p><i>“Your money is invested in new energy-efficient office buildings put on the market by real estate developers. The fund manager can guarantee that your money is only invested in ‘green’ buildings. Since there is already a high demand for those buildings, nothing suggests that additional efficient buildings are built thanks to the activity of the fund, so the fund manager cannot promise that your investment will save energy and carbon emissions.”</i></p>	<p>First choice of 17%</p> <p><i>“Your money is invested in existing office buildings. Some of them are already energy-efficient, the others have already a renovation program in place to make them energy efficient. The fund manager can guarantee that your money is only invested in buildings that are or are becoming green. Since there is already a market trend to make office buildings more energy-efficient to meet the needs of the tenants, the fund manager cannot promise that your investment will accelerate construction or renovation programs nor save more energy and carbon emissions than what would happen without the fund.”</i></p>
Equity fund	<p>First choice of 34%</p> <p><i>“The fund manager uses its voting rights as shareholder to force the management of big industrial companies (e.g. power producers, car makers,) to green their investment plans (e.g. by producing more renewable energy and close coal-fired power plants, by producing more electric cars and less gas-guzzling vehicles). Since other fund managers team up with him/her, the approach works: every year, the fund reports how much energy and carbon emissions are saved thanks to the changes triggered by the votes. These figures are audited by the public environmental agency.”</i></p>	<p>First choice of 29%</p> <p><i>“The fund manager only invests in the shares of companies that have environmentally friendly activities (only renewable power, only electric cars). Given that these companies already attract many investors, they do not face a shortage of capital to finance their growth, so the fund strategy does not change what these companies do. Therefore, the fund manager cannot promise that your investment will save energy and carbon emissions, but he/she can guarantee that you invest only in the greenest companies. The fund received a green label from the public environmental agency that confirms this.”</i></p>	<p>First choice of 26%</p> <p><i>“The fund manager only invests in the shares of big industrial companies (e.g. power producers, car makers,) that have greener activities than their competitors (e.g. they produce more renewable energy and less electricity from coal, they produce more electric cars and less gas-guzzling cars). Given that the fund is a small player, and that these companies already attract many investors, the fund strategy does not change what these companies actually do. Therefore, the fund manager cannot promise that your investment will save energy and carbon emissions, but he/she can guarantee that you invest in companies greener than the average. The fund receives a label from the government that confirms this.”</i></p>

After selecting their preferred option, the respondents were then asked to choose their “second best” in case the first option wasn’t available. The results are presented in the table on the right.

		First choice		
		Brown portfolio with proven impact	Green portfolio with no proven impact	Best in Class approach
Second best	Real Estate	Best in Class	Best in Class	Green portfolio
	Equity	Green portfolio	Best in Class	Green portfolio

Objective. This question follows the one presented in Fig 10. The objective is to assess the consistency of product selection with the stated motivations. The central question tested here is the trade-off between two objectives: “having an impact” and “avoiding guilt by association” (excluding the financial performance parameter). Product preferences are assessed with two concrete examples: a real estate fund, and an equity fund. We offered three options:

- A ‘brown’ portfolio with a proven impact
- A ‘green’ portfolio with no proven impact
- A ‘best in class’ portfolio with no proven impact.

The questionnaire included a detailed description of the product and its expected environmental benefits, as presented in the table on page 20. After selecting their preferred option, the respondents were then asked to choose their “second best” in case the first option wasn’t available.

Results. About 35-40% of participants prefer to invest in strategies exposed to ‘brown’ activities and having a positive impact in the real economy, rather than investing in portfolios exposed to ‘green’ activities or ‘best-in-class’ companies, but without evidence of additional impact. These results confirm the status of “having an impact in the real economy” as the primary expected outcome for consumers. Slightly less respondents choose the opposite strategy: ‘green’ portfolios with no proven impact. Finally, ‘Best-in-Class’ strategies, that dominate the retail product offers in France (see page 31) are less attractive to respondents.

Consistency with stated motivations. Correlation between the stated motivation to have an impact and choosing the actual impact product exists but is not as strong as one would expect. The same is true for other motivations like avoiding certain practices. These results illustrate the level of confusion between concepts and objectives described page 16. Our assumption, based on the qualitative interviews notably is that a part of the responses are randomly distributed among the options offered. Therefore, the ranking is meaningful, but not necessarily the percentages.

Effect of awareness-raising on greenwashing risks. In a first version of the questionnaire, the question comes at the beginning of the survey. A second sub-group was first tested on their interpretation of a series of five environmental impact claims on investment products – including 4 misleading ones. We assumed that this second subgroup was more aware of what the products could be in practice and the risk of greenwashing. However, contrary to the results for Fig 4 (page 9), for this question, the answers were similar for both sub-groups.

Other factors influencing responses. Gender appears to be an important factor for this question. Female respondents lean towards purely green funds, while male ones lean more towards Impact or Best in Class funds.

A small difference also exists between countries: French tend to favor “having an impact” or Green Funds. German preferences are more equally distributed across all options.



LONG AND COMPLEX QUESTIONS VS SHORT QUESTIONS WITH VAGUE/UMBRELLA CONCEPTS?

The framing and descriptions in the question stress the concept of *impact of the investment strategy in the real economy*, and insists on its difference with *the impact of the underlying activities*.

Such a question emphasizes a difference that consumers don’t understand immediately. Introducing such a subtle distinction involves long and complex descriptions (see table on page 20), which considerably reduces the level of understanding and ‘consumes’ the attention span of respondents.

1% of participants declared they did not understand the questions or choices and therefore did not pick a product. More consumers complained about the complexity of the questions during the qualitative interview.

On the other hand, the differences observed in the results between different questions tend to suggest that the interest expressed in sustainable investment solutions significantly drops when vague umbrella terms are used – which is a necessary evil when the questions and answers remain short.

RETAIL INVESTORS SAY THEY ARE WILLING TO SACRIFICE RETURNS AND FEAR GREENWASHING

MAIN FINDINGS

Willingness to sacrifice returns. One of the main innovations of our research was to survey consumers about their willingness to accept lower returns on investment, as the price to pay for investing more sustainably. We set the bar relatively high (-5% on the total amount received at retirement, the equivalent of doubling the management fees) assuming most respondents will reject the trade-off. But it turned out that most respondents accepted the suggested trade-off and almost all respondents accepted some trade-offs (see fig 13), even when the sacrifice was presented in very concrete terms (see Fig 14).

Retail investors seem to walk the talk. The first logical explanation for such behavior that comes to mind is a potential gap between the hypothetical case of a survey, and what consumers would actually do if they had a 'real choice'. However, two recent studies by the Universities of Maastricht and Cambridge suggest that consumers actually 'walk the talk' (see page 25 et seq.). While more research would be necessary to confirm those findings, our working hypothesis is that this situation results from the combination of two factors:

- The pivotal role of social norms in the decision-making process (see page 17) on the one hand; and
- The hyperbolic discounting of the potential financial downsides, due to its uncertainty and long-term nature (see page 26).

Further behavioral finance research would be needed to explore this hypothesis.

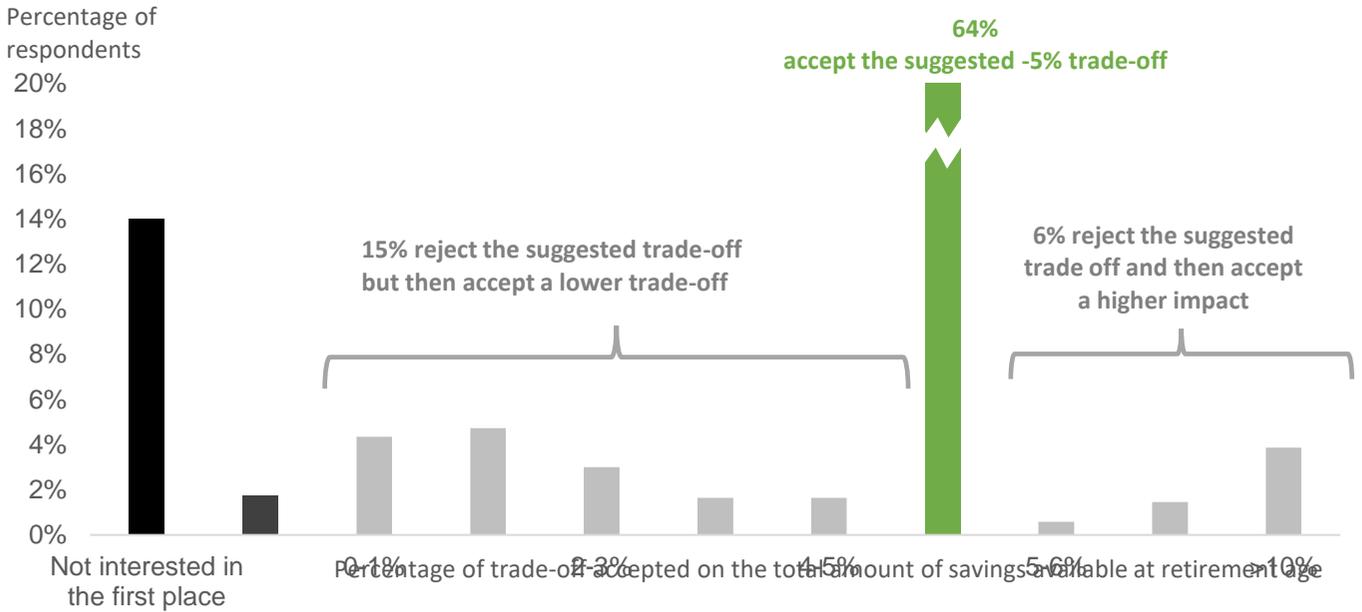
Justified fear of greenwashing. If the fear of lower returns does not seem to be such a major barrier to more sustainable investments, the fear of greenwashing definitely is (see discussion page 28 et seq.).

This fear appear to be largely justified, especially when it comes to investment products associated with 'environmental impact' claims: in a sister study on "Compliance of Environmental Impact Claims Associated with 'Sustainable' Retail Funds" (March 2020), we analyzed the environmental claims of 230 green and SRI funds across Europe and concluded that almost all impact-related claims were not aligned with regulatory guidance (see figure 18), and actually confused 70% to 80% of consumers surveyed.

Such practices reinforce the lack of empowerment felt by consumers: the idea that no action or product could be impactful appears to be the main barrier to action (see Fig. 19). Our research¹ suggests that no evidence is produced to date to contradict this perception. This is, in our view, the main technical issue that the industry will have to address in order to fully seize the opportunities related to consumers' environmental objectives.

1. "Compliance of Environmental Impact Claims Associated with 'Sustainable' Retail Funds" – 2dii 2020

Do you accept to pay more/earn less?



Objectives. Earning more doesn't seem to be the main motivation, but are retail investors ready to earn less?

To find out, we asked consumers who declared that they wanted to take action (Fig 2) or invest in impact funds (Fig 3) if they were willing to accept a trade-off. We first suggested a sacrifice of -5% on the total amount of savings available at retirement age: 64% accepted and 28% rejected it.

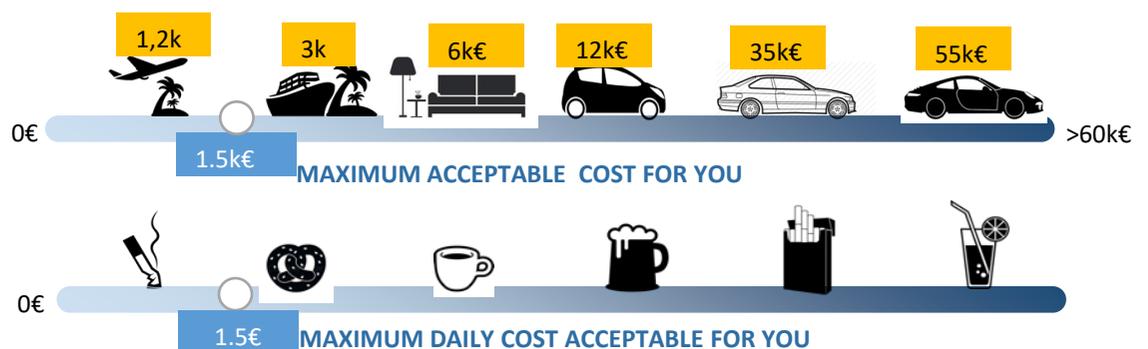
The question was framed as “[your choice] comes with a cost: it might involve more fees to manage your money, and may impact negatively the profitability of your investments. It can have an impact on your savings and reduce the cumulated revenue you expect during your retirement period by up to [amount]. Do you agree and still want to proceed with your decisions? Yes/No”

Then, we asked those who rejected it “What would be the biggest impact on your retirement revenues you are willing to accept to maintain your original decision?”. They set a limit on a scale (see below).

Framing: absolute amount vs daily cost. The questions were framed differently for two subgroups:

- In the first questionnaire, the amount was first presented as an absolute figure (e.g. “15,000€”), and then the scale was also presented in absolute figures with an illustration (see below).
- In the second questionnaire, the first amount was first presented as a cost in €/day during the retirement period, and then the scale as well, only with an illustration (see below).

Results. Unexpectedly, the acceptance of the suggested trade-off is incredibly high, and the counter-proposals still represent significant sacrifices. The first thought that comes to mind is obviously that consumers would not ‘walk the talk’, but recent behavioral science field experiments suggest that they actually do. These results tend to confirm the pivotal role of social norms discussed page 17. To further confirm this hypothesis, it would be interesting to test the same questions with different levels of suggested trade-offs.



14.1. Do you regret your choice?

How would you respond to ethical, social or environmental concerns with your investments?

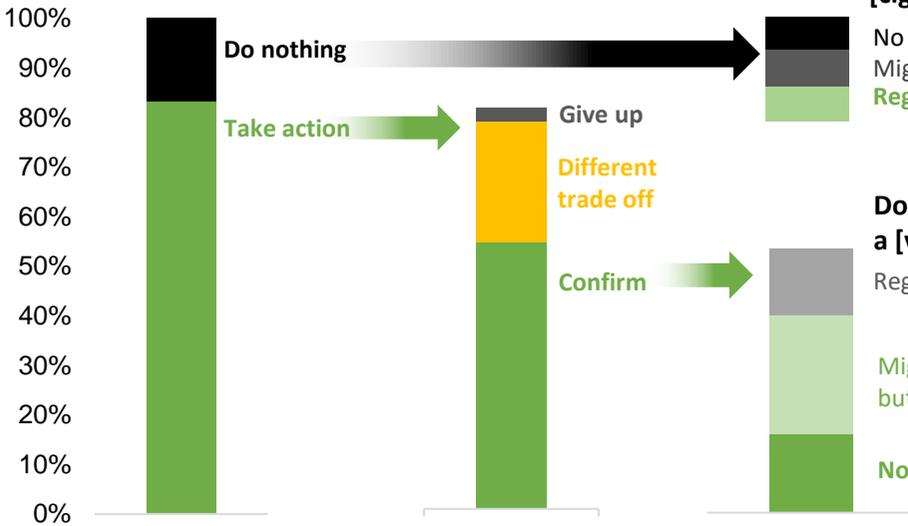
Would you accept to sacrifice 5% of your pension?

Do you realize that it's only a [cigarette/coffee...] per day?

No regret
Might have doubts, but stick to my choice
Regret the choice

Do you realize that it's the price of a [vacation/new sofa/car....]?

Regret
Might have doubts, but stick to my choice
No regret

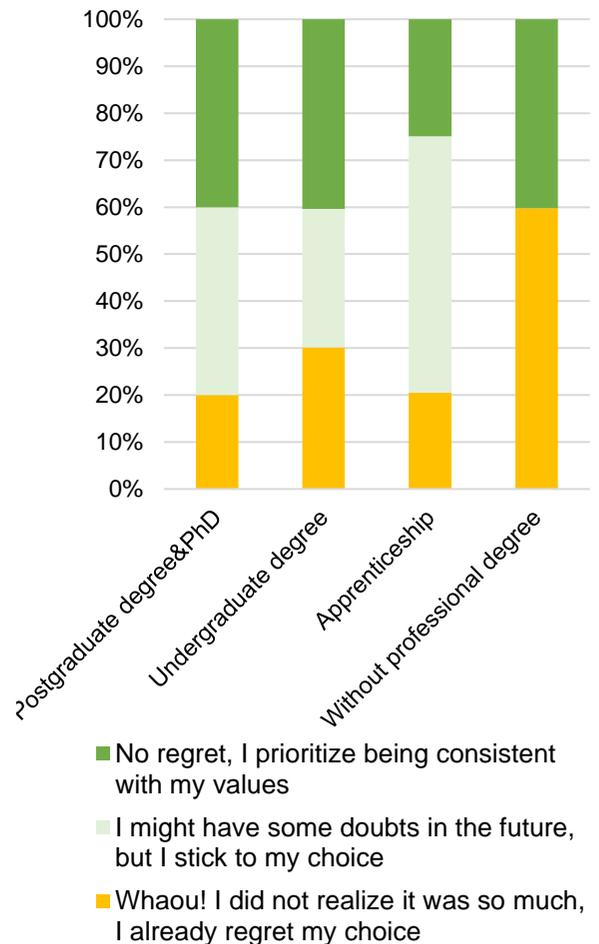


Confirmation question. Finally, in a third and last question, we visualized the implication of the choices made in terms of cost (absolute or per day) and asked respondents to confirm that they had no regrets. As a result, it actually slightly increases the percentage of respondents willing to take action (see Fig 14.1).

Difference between the two groups. A small framing effect could be found in this particular question. The group that was more biased towards action, had more regrets regarding the consequences of their investment decision afterwards than those that were less biased into this. They were more confident with costs associated with their decisions and tended less to rethink them over.

Factor influencing responses. An important factor in regretting the decisions made to incorporate environmental and social issues into their investments is education. The lower the level of education, the higher the tendency is to have regrets of the consequences of the decision (see Fig 14.2).

14.2. Correlation with education



RETAIL INVESTORS SEEM TO WALK THE TALK

Two recent studies aim at assessing how consumers react to ‘real-life’ choices. The results suggest the absence of any gap between hypothetical choices and real choices, and also suggest consumers are willing to accept significant trade-offs for ‘impact’.

However we consider that more research is required to confirm these results, since the conditions of a ‘real-life choice’ were not fully met.

“Walking the talk: Understanding consumer demand for sustainable investing” (University of Cambridge)

In 2019, the University of Cambridge conducted a survey on a sample of 2,000 Americans. The research team let the participants know that “they may be randomly selected to receive an investment worth US\$1,000 into their chosen fund. The aim was to encourage participants to treat all of the choices they made as if they represented a real investment opportunity”.

The objective of the survey was to assess willingness to accept trade-offs on returns. The research team presented a typical fund prospectus to participants followed with one exception: the addition of an “impact score” (see fig 15.1)

The result of the study show that a majority of participants would sacrifice up to 3% per year (see Fig 15.2). The median being at 2.5%.

This magnitude of the acceptable trade-off in this study is considerably higher than what we tested in our survey. However it does not relate to investor’s savings: it only relates to \$1,000 in the hypothetical case in which the respondent is selected. So it cannot be assumed that the respondent would make the same decisions with their actual full pension money.

So if such results seem to suggest that consumers “walk the talk”, more research would be needed to confirm such a conclusion scientifically.

15.1. Impact information in the prospectus

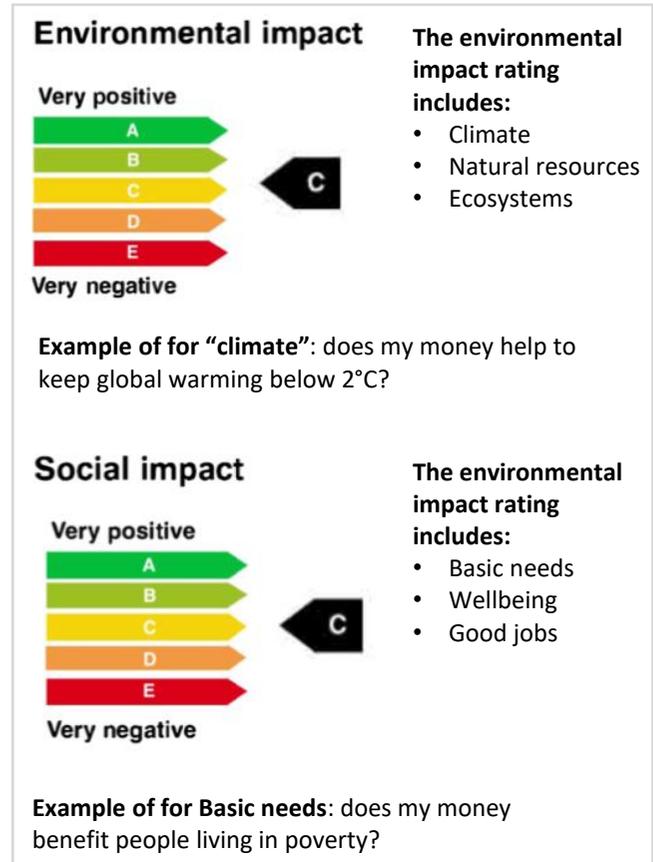
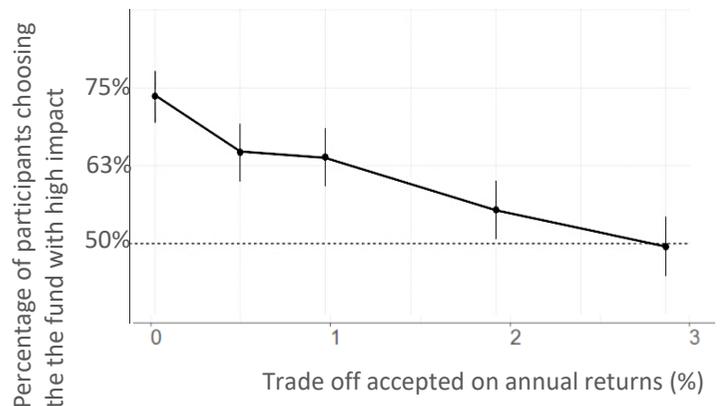


Fig 15.2. Savers acceptance of a trade-off on returns



“Get Real, Individuals Prefer More Sustainable Investments” (Maastricht University)

In a 2019 study from the Netherlands and conducted on 1,700 pension fund beneficiaries, the University of Maastricht tried to simulate the effect of a “real choice”: *“The pension fund in our study gave its members a real vote for more or less sustainable investments. A comparison group made the same decision, but hypothetically”.*

The results were very similar to what we found in Germany and France. The University found *“that 66.7% of the participants favor to invest their pension savings in a sustainable manner.”*

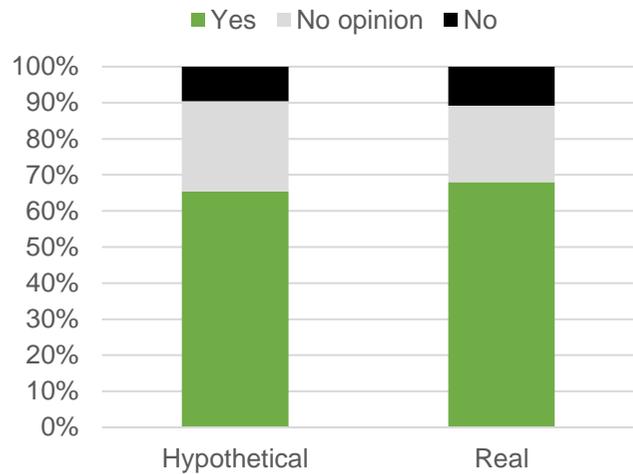
The researchers also found that *“choice is driven by social preferences”* rather than the objective to maximize returns on investments or reduce risks.

The researchers also asked about expectations regarding returns, and willingness to accept trade-offs. They first assessed consumers perception on the expected returns from more sustainable investments: *“13% of participants expect lower returns and 45% “don’t know”.*

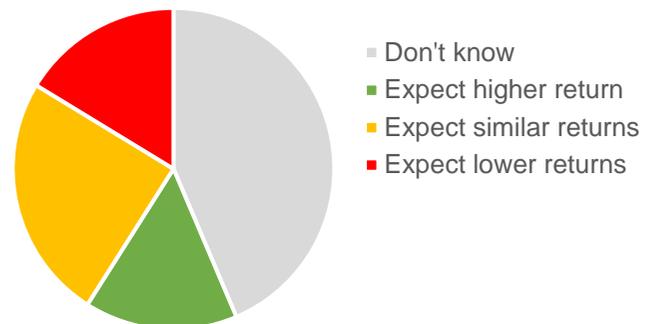
Then, they asked participants who expected similar or higher returns, *“whether they would be willing to accept lower financial returns in order to expand sustainable investments?”*. Only a minority (below 40%) refused in the real case. As the authors stressed: *“Respondents in the real treatment thus were aware of the fact that their choice could have an impact on the investment activities of their pension fund. More importantly, the fund could thus also consider a willingness to accept lower returns as the right to give up financial returns in order to increase the social impact of their investments.”*

On the other hand, it could be argued that respondents consider their decision as a ‘vote’ in a collective process rather than an individual decision. Besides, they have not been asked about the magnitude of the trade-off.

16.1. Do you favour investing your pension savings in a sustainable manner?



16.2. What do you expect the financial impact of investing more sustainably to be ?



“Participants did not only choose the more sustainable option regardless of their return expectations. Almost half of them were even willing to give up financial returns.”

University of Maastricht

POSSIBLE EXPLANATION: HYPERBOLIC DISCOUNTING

Behavioral economics tells us that given two similar rewards, animals and humans show a preference for one that arrives sooner rather than later. They are said to *discount* the value of the later reward. Discounting is called “hyperbolic” when individuals reveal a strong tendency to become more impatient when rewards are more imminent¹. They make choices today that their future self would prefer not to have made, despite knowing the same information.

Applied to the case of preferences for sustainable investment, it could be argued that the psychological rewards related to more sustainable choices (e.g. self-esteem – see page 15) are immediate and certain, while the downside on financial returns are uncertain and only have consequences in the far future. The application of hyperbolic discount could therefore lead to fully value the psychological rewards and entirely discount the financial downside.

1. See for instance *“Uncertainty and Hyperbolic Discounting”* (Dasgupta, Maskin)



THE WILLINGNESS TO ACCEPT TRADE-OFFS SEEMS SIGNIFICANT

Results of 2Dii survey. In our survey, we first ask respondents about their social and environmental expectations, and their motivations, and only then ask if they would be willing to accept a 5% trade off on their total pension (see Fig 13 page 23). A large majority (64%) accept the suggestion, and almost all respondents (85%) say they would accept some trade-off. For another group, we asked a more generic question (see fig 4.1 page 9, and Fig 11, page 19) and suggested a potential trade-off before they have the opportunity to express social and environmental preferences. Such a framing leads to significantly lower acceptance of trade-offs (32%), and a priority given on returns, suggesting that framing is very critical on this topic.

Interpretation. The results lead to the implication that when people better understand what impact their investments can have, they are willing to focus more in these sustainable challenges in stead of only focusing on maximizing profit and therefore returns. This results can be explained by loss aversion (Kahneman & Tversky, 1979): people do not like to experience the feeling of loss, moreover, feelings of loss tend perceived more negative as compared to the feeling of gain for the exact same quantity (see Fig 17.2: the s-shaped curve that explains the relation between losses and gains). However, this loss aversion can be reduced by making explicit what the potential loss is for. This can in turn be explained by the previously mentioned 'confirmation bias': we like to explain and confirm that our line of thoughts or actions are correct, so if we understand why we could perceive a certain loss (as indicated in Figure 1 on page 6), we are more willing to accept possible loss in returns, because it fits with our own images.

Comparison with other studies. Only the DFID, UK study addresses directly the willingness to accept lower returns by asking if respondents "would make a sustainable investment even if returns might be lower". 28% of the participants indicate that they are willing to accept less returns, which is in line with the results for Fig 4.1 and 11. In the University of Maastricht field experiment (see Fig 16 page 26), the question on the willingness to accept trade-offs comes after responded expressed their sustainability objectives, and lead to higher acceptance (60%). Although the sample is too limited to reach conclusions, the results seems to confirm the framing effect identify in 2Dii's surveys.

Besides, three other studies we reviewed (Morgan Stanley's, Arabesque's, University of Maastricht) focus on the perception of participants on whether sustainable investments lead to lower returns or not: the positive answers are respectively 53%, 35% and 16%.

Key Reference: Kahneman, Daniel; Tversky, Amos (1979). Prospect theory: An analysis of decision under risk. *Econometrica*. 47(2): 263–291.

FIG. 17

Fig 17.1. Willingness to accept trade-offs on returns

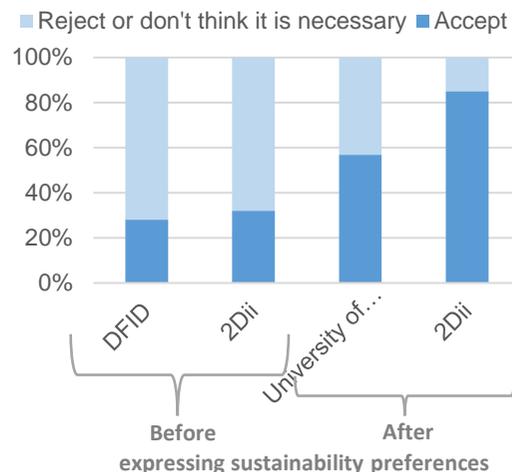
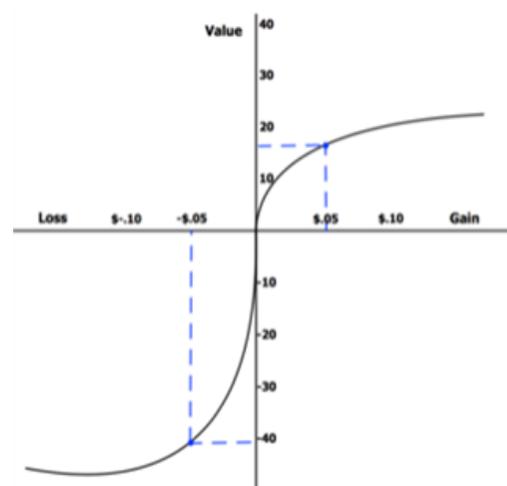


Fig 17.2. Value function steeper for losses than gains



THE FEAR OF GREENWASHING IS THE MAIN BARRIER

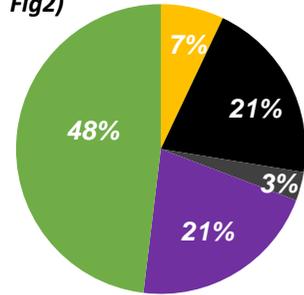
The results of the two surveys, the qualitative interviews and the focus groups suggest that the fear of misleading claims and ineffective environmental impact management are the biggest obstacles to investing in sustainable products. Fig 19 analyze the motivations of the minority who said “no”: it turns out the the fear of greenwashing is a bigger obstacle than the perception of lower returns.

More precisely we have identified several categories of misleading claims:

- Very generic claims such as self-labelling funds “socially responsible” or “sustainable”, when the actual investment strategy is happen to be very similar to standard investment practices;
- False or misleading claims related to the composition of the investment product: for instance, a fund marketed as “fossil-free” or “low-carbon” that is exposed to companies related to fossil-fuel extraction;
- Misleading claims regarding the “environmental impact” of the product, piggy backing on the confusion between the impact of the investment strategy and the impact of the investee companies. Based on our review of marketing material, the latest seem to be standard practice in the industry (see Fig 18).

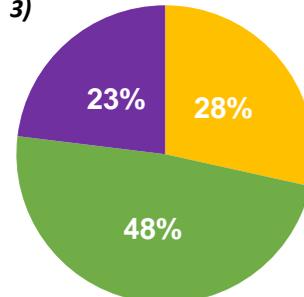
Why did you say “no”?

19.1. Question asked to those who did not take action after they found out about a controversy related to their investments (see Fig2)



- I don't think what I do at my level will change anything. I don't have enough money to influence anything.
- I don't want to reduce the profits made by those companies
- I accept it, that's part of doing business
- I trust the CEOs of the companies to deal with the issues
- I don't want to spend time thinking about this

19.2. Question asked to those who said they were not interested in “impact funds” (see Fig 3)



- It looks like a marketing trick, not sure those funds have any concrete impact
- These investments are likely to have lower returns
- I already do enough on social and environmental issues

19.3. Question asked to those who said they were not interested in “products taking into account environmental criteria” even if they have better financial returns (see Fig 4)

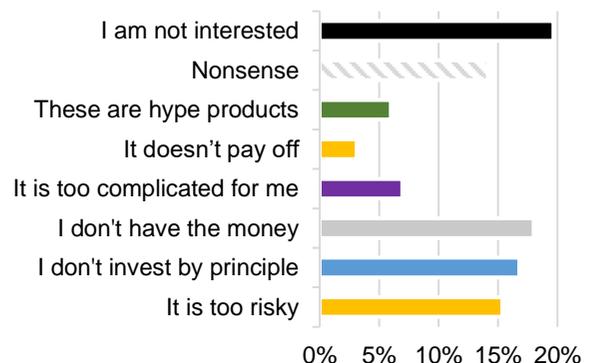
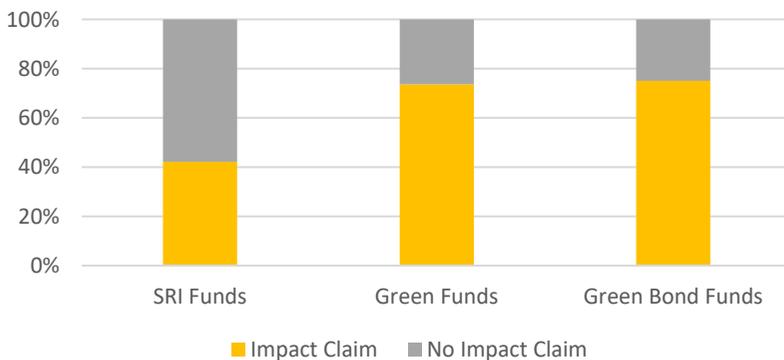


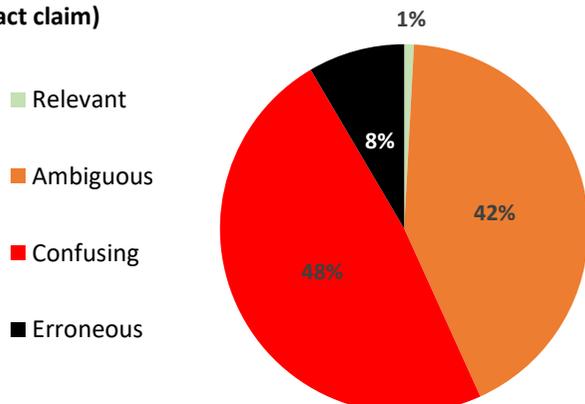
FIG. 18

Prevalence of misleading impact claim in Europe

18.1. Frequency of product-related environmental impact claims across all documents for 230 SRI/green retail funds distributed in Europe



18.2. Funds categorized by level of misalignment with regulatory guidelines on environmental claims (in % of funds associated with an impact claim)



IMPLICATIONS AND CONCLUSIONS

Two-thirds of retail investors say they want to invest sustainably.

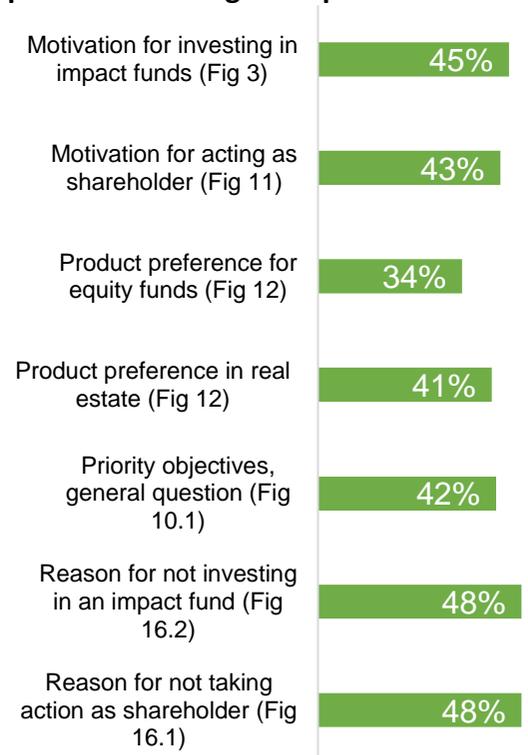
Our surveys show that 65% to 85% of retail investors in Germany and France say they want to invest more sustainably when they are asked. These results are aligned with the results from other studies from different authors in France and Germany, but also in other countries (see figure 5.1). In line with other studies, we also found that interest is correlated with the age: investors under 40 are more likely to interpret the questions correctly and to be interested.

Consumers want to have an impact “*Being interested in sustainable investment products*” (or whatever other umbrella term) doesn’t say much about what outcomes consumer actually expect and why. The main objective of this study was to help a panel of consumers “interested in sustainable products” identify the outcomes they expect to see and disentangle the means and the end. Our research led to the conclusion that, once the confusion between the means and the end is cleared, there are only three end-goals pursued by consumers:

- *Optimizing return on investment*
- *Avoiding guilt by association*
- *Having an impact in the real economy, which seem to be the main end goal for consumers (see fig 20).*

The pivotal role of social norms. Consumer research on environmental objectives highlights a big paradox: On the one hand, when asked, consumers seem willing to sacrifice thousands of euros in order to pursue their environmental investment objectives (see page 23); On the other hand, most of them never dedicated any time and brain space to the topic or may have never considered the issue. The explanation seems to lie in the pivotal role of ‘social norms’ at each stage of the decision-making process. In other words, when i) consumers face complex new questions, and ii) the expected psychological benefits (self-esteem, altruism) depend on social norms, they tend to do what they perceive as ‘the normal thing’ to do.

Fig 20. Percentage of consumers who prioritize “Having an impact”



CLIENTS' PROFILES

Based on the results of our survey and third-party studies, we have established four (see Fig 21):

Impact investors. The main group (about 40%) are 'impact investors': in line with the academic definition of 'investor impact' (see Fig 21), they want to make a difference in the real economy by influencing the behavior of companies and other economic players. These investors are driven by their social preferences and are willing to accept trade-offs.

Symbolic actions. About 20% of retail clients prioritize symbolic actions, such as divestment from brown activities and investment in green activities over 'investor impact'. This group is aligned with the approach currently promoted by the European Commission in the regulatory package on sustainable finance. They are also willing to accept trade-offs. Given the limited level of literacy on the topic of impact investing, a simplistic suitability assessment can inflate artificially the size of this group. For instance, many clients would spontaneously respond that they want to divest from coal, when they actually want to contribute to reduce the use of coal in the real economy.

No interest in ESG. Finally a small minority of clients (10-12%) do not want to see ESG factors integrated, even for the purpose of optimizing financial returns. They fear greenwashing, an excuse to increase the fees, or/and the risk of lower returns.

Optimize returns via ESG. A minority of clients (10-15%) sees ESG integration as a way to manage financial risks and identify business opportunities: their objective is to increase returns. This approach matches with the narrative and approach of most asset managers in a B2B context.

Fig. 21. Academic definition of investor impact (source: Kölbel, Heeb, Paetzold, Busch)¹

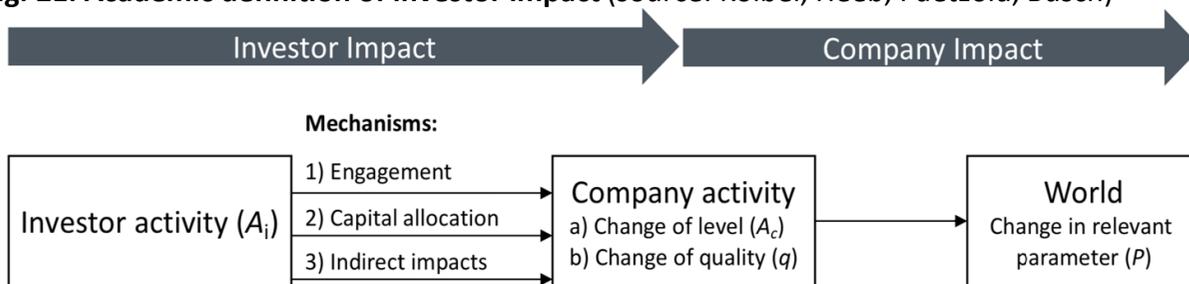
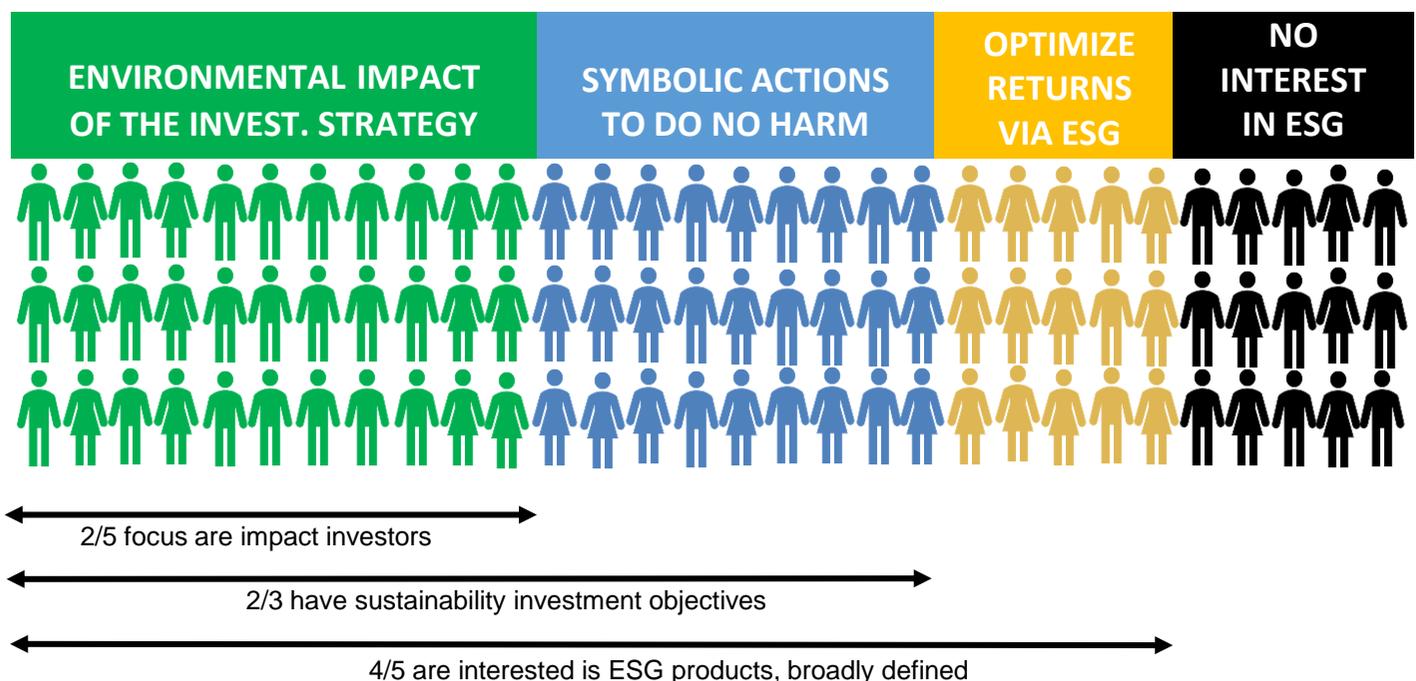


Fig. 22. Retail clients profiles based on survey results (source: 2Dii)



1- Kölbel, Heeb, Paetzold, Busch: *Can Sustainable Investing Save the World? Reviewing the Mechanisms of Investor Impact (2019)*

RISK OF MISSELLING

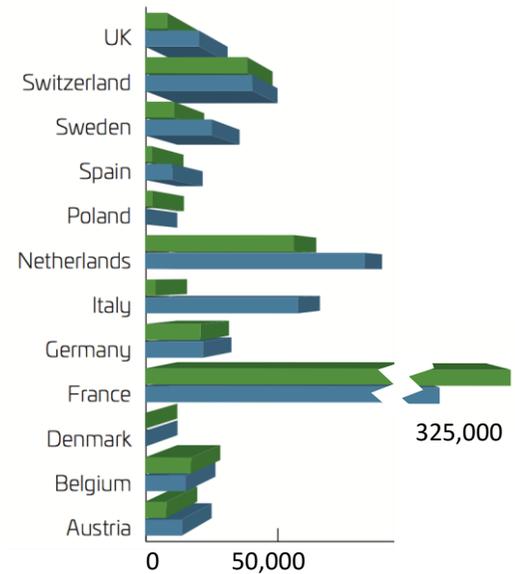
Suitable products. For consumer looking to “avoid guilt by association” or “optimizing returns” (see Fig 6), the current offer of ‘sustainable’ products (see Fig 24) seems relatively suitable. The main issue is to ensure that the thresholds (e.g. for exclusion) and definitions (e.g. for what is green/brown/controversial, etc.) match consumers’ expectations and representations. However, this topic is not entirely new and relatively well covered by existing labels and set of metrics provided by ESG data providers.

Risk of misselling ‘Best-in-class’ strategies in France. One specific problem relates to the over-representation of best-in-class strategies on the French market (see Fig 23). Indeed, on the one hand, our mystery shopping visits¹ suggest that best-in-class strategies are the main products ‘on shelf’ and likely to be the by default option recommended to retail investors when they express their interest for investing sustainably. On the other hand, best-in-class strategies seem relatively disconnected from the motivations of most consumers and rank last in preferences (Fig 12).

Most ‘sustainable’ products on the market are technically not suitable for impact-oriented consumers. Based on our surveys, the main objective of consumers is to “have an impact in the real economy” (Fig 6, Fig 19). In theory, based on Eurosif’s categorization (See Fig 24), the only strategy explicitly designed to deliver such outcomes is “impact investing”, which represents less than 1% of “socially responsible” assets under management and is mostly composed of illiquid assets (GIIN 2018 survey). Such products are therefore not likely to be easily accessible for most retail investors. Besides, our study on environmental impact claims² suggests that even products self-labelled as “impact investing” do not substantiate their claims with scientific evidence. Most of the time, the asset managers take for granted that being exposed to green activities suffice to meet the ‘additionality’ criteria (see definition on the right), which is not backed by ex-ante evidence.

Fig 23. Best in class strategies Aum (M€)

Source: Eurosif European Study 2018.



“Definitions around the key requirements for impact investing which differentiate it from other strategies are:

- *Intentionality: the intention of an investor to generate a positive and measurable social and environmental impact;*
- *Additionality: fulfilling a positive impact beyond the provision of private capital;*
- *Measurement: being able to account for, in a transparent way, the financial, social and environmental performance of investments.” Eurosif 2018 survey*

Fig 24. Overview of SRI strategies in Europe (Market share in AuM)

Source: Eurosif European Study 2018. Dec 2017 in total asset under management for each strategy.

1. Upcoming study, Q2 2020.
2. “Compliance of Environmental Impact Claims Associated with ‘Sustainable’ Retail Funds” – 2dii 2020

A source of optimism relates to the interest of impact-oriented investors in the use of shareholders rights to deliver impacts (see Fig 2 and 11). According to Eurosif (see Fig 24), "Engagement & voting" is the second largest strategy in Europe. In the context of investors climate pledges and coalitions such as Climate Action 100+, and building on climate scenario analysis, shareholder resolutions pushing for the adoption of Paris-aligned targets are getting an increasing level of support¹ (Fig 25). For such an approach, the technical complexity of measuring the impact of the actions in the real economy (results of the votes and potential adoption and implementation of targets by investee companies) is relatively limited, thus enabling asset managers to substantiate their claims. Besides this approach is applicable to diversified equity strategies, even passive ones, thus compatible with the risk profile of mass market products.

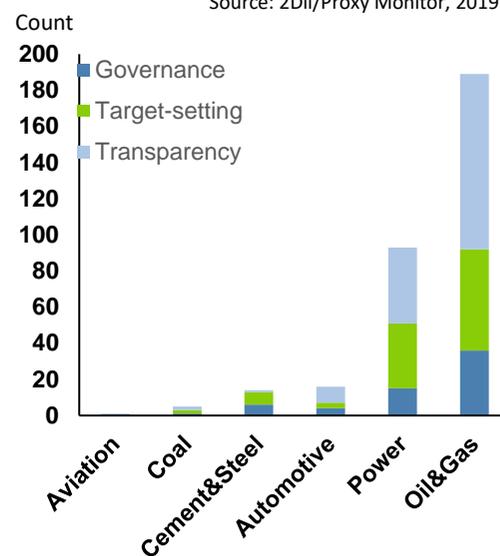
Ability to increase fees and margins. The results of analysis suggests that consumers are ready to pay more (fees) or see their returns reduced in order to invest more sustainably (see Chapter III).

If this willingness to pay is confirmed, it would obviously be a good news for the industry: innovation is needed to develop environmental asset management, measure the impacts in the real economy and develop new products. Some of these innovations are likely to come with a cost.

It could also become very quickly a nightmare for financial supervisors and consumer associations: currently, misleading environmental impact claims are the norm, and most labeling initiatives tend to vet those practices rather than preventing them. The risk to see certain asset managers increasing their margins based on environmental impact claims and provide limited innovation in return seems pretty significant.

Fig. 25. Climate-related resolutions by sector & type 2006-2019

Source: 2Dii/Proxy Monitor, 2019



1. See our upcoming publication: "A taxonomy & analysis of climate-related shareholder resolutions » 2Dii 2020



ABOUT 2° INVESTING INITIATIVE

The 2° Investing Initiative is a multi-stakeholder think tank working to align the financial sector with sustainability policy goals. The organization is non-for-profit and noncommercial. It helps develop the regulatory frameworks, performance metrics, data and tools to support this evolution.

Thanks to its EU-funded research programs, 2° Investing Initiative introduced climate scenario analysis of investment and lending portfolios into regulatory frameworks (France, EU, California), investors' and banks' practices (for more than 600 users and €20Tn of assets) and supervisory practices (UK, EU, California, Japan). 2° Investing Initiative research on the suitability assessment test in Europe triggered, via the HLEG, the reform of MIFID and IDD introduced by the EC regulatory package on sustainable finance.

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2dii.org/resource/marketing-claims/

Retail Clients Want to Vote for Paris:

Analysis of retail clients' preferences regarding the use of shareholder rights on climate resolutions
2dii.org/resource/vote-for-paris/