

Policy Brief 2/2023

The role of sustainable investments in the transformation: (further) education as a key element

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At a glance

- Sustainable investments can be an important building block in the transformation of the economy and society.
 - There has recently been a growing interest in sustainable investments, particularly in the retail segment.
 - Despite regulatory efforts such as the introduction of a mandatory sustainability preference query during retail investment consultations, various factors continue to hinder stronger growth in the market share of sustainable investments.
 - Both on the part of investment advisors and retail investors, a lack of knowledge about sustainable investments seems to contribute to a preference for conventional investment products.
 - The design of training and further education measures for investment advisors as well as financial education measures for the population, particularly in connection with sustainable investments, can help to better exploit the potential of this asset class.
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Acknowledgements: The authors would like to thank Timo Busch, Alexandra Hüttel, Astrid Mathey, Maik Nagel, Bastian Tittor and Dennis Zagermann for their valuable reflections and comments.

Background

The European Union (EU) has committed to the United Nations' Sustainable Development Goals as part of the 2030 Agenda¹ and also aims to be climate neutral by 2050². The necessary transformation of the economy and society will require considerable investment. The financial sector has a crucial role to play in providing and channeling the necessary financial resources.

Sustainable investments are investments that take into account environmental, social and corporate governance criteria in addition to financial returns. They can be an important component of sustainable transformation, as they enable retail investors to participate in the transformation process of the economy and thereby reduce existing investment gaps in the real economy. Overall, they can make a positive contribution to the sustainable development of the economy and society.

The demand for sustainable investments has risen continuously in recent years. Retail investors have been a key driver of this development. The *Forum Nachhaltige Geldanlagen* (FNG) puts the volume of this product segment in Germany at EUR 578 billion in 2022.³ This corresponds to an increase of 15% compared to the previous year and 382% over the last ten years⁴. Compared to the overall market, however, the volume invested in sustainable investments is currently still low.

Several barriers hinder growth in the retail investor segment

Despite the increased volume, scientific studies indicate that the share of retail investors who invest in sustainable investments is significantly lower than the share of those who are interested in sustainable investments (Wins and Zwergel 2016; Gutsche et al. 2017). Based on a systematic literature review, Klein et al. (2023) identify various barriers among both retail investors and investment advisors that inhibit the growth of the market share of sustainable investments. Both sides tend

¹ Based on information on the [website](#) of the European Commission (available online, accessed November 9, 2023. All other online sources of this report were also accessed on this day unless otherwise noted).

² Based on information on the [website](#) of the European Commission

³ FNG Market Report Sustainable Investments [2023](#).

⁴ FNG Market Report Sustainable Investments [2013](#) and FNG Market Report Sustainable Investments [2023](#).

to see the decisive obstacle on the other side. While retail investors point to the lack of products on offer, investment advisors complain about their clients' lack of interest in sustainable investments (Heinemann et al. 2018; Klein et al. 2022).

As a result of the amendment to the MiFID II and IDD directives, investment advisors in the EU have been legally obliged since August 2, 2022 to ask their clients about their sustainability preferences within the financial advisory process.⁵ The research findings described above led to the conclusion that this regulatory innovation would lead to a significant increase in the market share of sustainable investment products.⁶

However, the three-stage sustainability preference survey process places very high demands on the level of knowledge of investment advisors in the area of sustainable investments. The results of a study by Klein et al. (2022) suggest that the level of knowledge of investment advisors at the time the study was conducted was too low with regard to the required granularity of the sustainability preference query. In addition, investment advisors perceive the process as complex and, in some cases, impractical. Ultimately, growth of sustainable investments may be hampered by this perception.

Klein et al. (2023) identify further barriers on the supply and demand side that restrict the growth of the product segment (Table 1)

⁵ Cf. [COMMISSION DELEGATED REGULATION \(EU\) 2021/1253](#) of April 21, 2021.

⁶ Cf. statement by Christian Klein dated July 29, 2022 on the [website](#) of the Sustainable Finance Science Platform

Table 1 Barriers in the area of sustainable investments

Investment advisors	Retail investors
<ul style="list-style-type: none"> ▪ Lack of sustainable financial literacy ▪ Lack of (customer-oriented) sustainable product range ▪ High information and transaction costs ▪ High perceived complexity ▪ Doubts about the impact of sustainable investments ▪ Distrust of providers of sustainable investments ▪ Perception of poorer financial performance (return and risk) ▪ Lack of awareness/ lack of conviction ▪ Regulatory framework ▪ and more 	<ul style="list-style-type: none"> ▪ Lack of sustainable financial literacy ▪ Lack of (customer-oriented) sustainable product range ▪ High information and transaction costs ▪ High perceived complexity ▪ Doubts about the impact of sustainable investments ▪ Distrust of providers of sustainable investments ▪ Perception of poorer performance ▪ Risk aversion ▪ Perception of higher fees ▪ Lack of financial literacy ▪ Lack of transparency ▪ and more

Source: Own illustration based on Klein et al. (2023).

Promotion of sustainable investments in the retail investor segment

Based on the identified barriers, Klein et al. (2023) derive seven recommendations for action aimed at increasing the market share of sustainable investments:

1 Conception of target group-oriented training and further education measures in investment advice.

Financial advisors are crucial players for retail investors in obtaining information for investment decisions (Gutsche and Zwergel 2020). The high level of complexity and dynamics in the field of sustainable investments place high demands on the level of knowledge of financial advisors. The topic of sustainable investments might be avoided in the financial advisory process due to the lack of knowledge (Schrader 2006; Paetzold et al. 2015). Comprehensive and regular education and training programs are therefore necessary and should be enshrined in law where appropriate.

2 Development of scientific instruments to measure the level of knowledge in the field of sustainable investments

The level of knowledge in the field of sustainable investments recorded in previous studies is based on self-assessments. In order to assess the actual level of knowledge and identify possible interactions between different barriers, a standardized measurement is required. It is recommended that such a measurement instrument be developed based on a uniform understanding of the term sustainable financial literacy.

3 Promotion of accompanying scientific research for the implementation of the sustainability preference query

Sustainable investment are perceived as complex in particular by retail investors who have not previously invested in this category of investments (Gutsche and Zwergel 2016; Nilsson et al. 2012). The very granular query of sustainability preference as part of the MiFID II/IDD directive could reinforce this perception and thus have negative effects on the growth of the market segment. In order to identify and avoid possible

negative effects at an early stage, the implementation of mandatory surveys should be scientifically monitored. In addition, the query should be based on the level of knowledge of retail investors and include options for simplification if necessary.

4 Development and integration of standards for sustainable savings products and promotion of accompanying scientific research

German retail investors are more risk averse and therefore tend to avoid investments in capital market-oriented financial products. However, the range of sustainable investments on offer currently consists mainly of risky products, such as investment funds. The development of standards for sustainable savings products would be a sensible first step towards expanding the offering in this product category. Corresponding initiatives should also be scientifically monitored.

5 Development of target group-oriented educational concepts to increase the financial literacy of retail investors

Financial education is positively related to investments in capital market-oriented financial products (van Rooij et al. 2011). This correlation can be observed not only for conventional investments, but also for sustainable investments (Anderson and Robinson 2021). At the same time, the level of knowledge of retail investors in the field of sustainable investments is currently rather low. Communicating knowledge about (sustainable) investments is therefore of central importance. Target group-oriented concepts for financial education, especially on sustainable investments, can help to increase the level of knowledge and thus trigger a growth effect in sustainable investments.

6 Development and introduction of the sustainability scale for financial products

At present, there are already a number of predominantly private-sector certifications and labels for sustainable investments, such as the FNG seal, which is widely used in German-speaking countries. These labels and certifications can help

to reduce existing information asymmetries and thus increase the transparency of sustainable investments. Gutsche and Zwergel (2020) show that funds with a government label or a label from a non-governmental organization are preferred by retail investors. In line with the German Sustainable Finance Strategy,⁷ the development and introduction of a uniform and universally applicable sustainability scale for labeling investments is therefore recommended.

Conclusion

Sustainable investments are becoming increasingly popular and could be an important component in achieving the Sustainable Development Goals and the EU's goal of climate neutrality by 2050. The EU has already implemented a number of regulatory projects in order to make even better use of the potential associated with the investment decisions of private households to achieve the aforementioned goals. One of the most notable of these is the obligation to include sustainability preferences in investment advice. Practical implementation has shown that the regulatory innovation has not yet been able to fully achieve the intended effect. However, both retail investors and investment advisors, who are an important intermediary in the investment process, face further barriers that hinder the growth of the sustainable investment market segment. The recommendations for action presented here can help to gradually dismantle these barriers and thus also help to ensure that regulatory measures that have already been implemented and will be implemented in the future have a greater impact.

⁷ German Sustainable Finance Strategy (available [online](#)).

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About the project

The Sustainable Finance Research Platform is a joint project between five German research institutions conducting research on different aspects of Sustainable Finance, e.g. sustainable investments, sustainability risks and chances, and sustainability reporting. With their independent research, the project partners aim to support stakeholders in politics, the financial sector, and the real economy in understanding and shaping the central role of capital markets in achieving a net-zero economy. The researchers involved answer social, political, and business-related questions, provide established and new research findings, and participate in political and public debate. They also want to establish sustainable finance as a topic in the German research landscape and secure connections with international institutes and processes.

More information can be found on the project's website wpsf.de/en/.

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The Sustainable Finance Research Platform is funded by

