

Assessing client sustainability preferences ... lost in the maze?

Results of a European mystery shopping campaign assessing financial advisor's compliance with new regulatory requirements for the assessment of client sustainability preferences

Key findings | February 2023

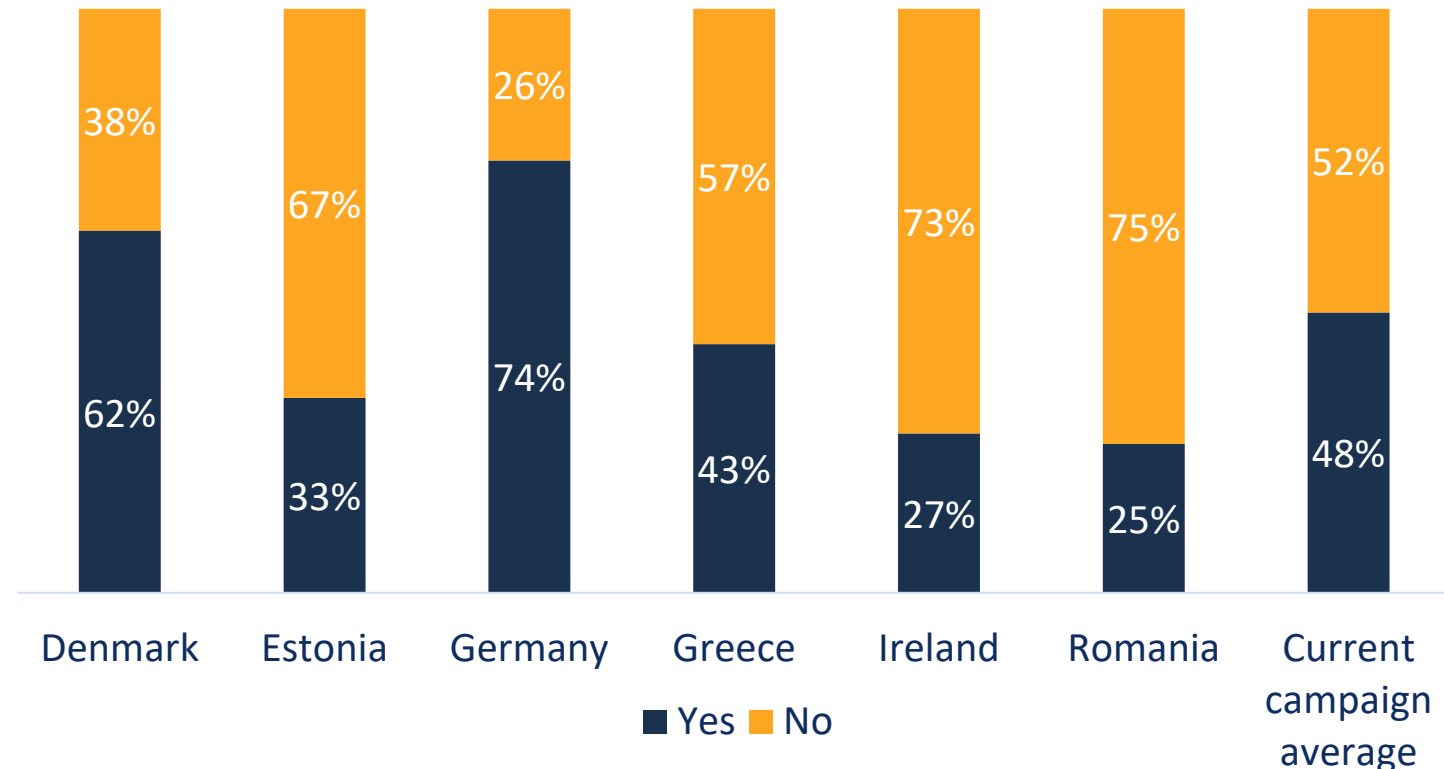
Context

- Through providing investment and insurance advice to clients, advisors can play a central role in this reorientation of finance towards a sustainable economy. To ensure this role is effectively utilised, delegated regulation which came into force in August 2022 now requires advisors to carry out a mandatory assessment of client sustainability preferences during the suitability assessment.
- This paper summarises the results of our 2022 mystery shopping campaign (253 visits across 6 EU countries) to assess advisor behaviour in the context of these new regulatory requirements to assess sustainability preferences.
- Our research questions are grouped in three main themes:
 - Assessing the level of compliance with the regulatory provisions which introduce a mandatory assessment of client sustainability preferences during the suitability assessment.
 - Testing the limits of the regulatory definition of sustainability preferences to enable a holistic assessment of client preferences for sustainable investment.
 - Assessing the level of sustainable finance knowledge by financial advisors to provide financial product recommendations to clients with sustainability preferences.

Low level of regulatory compliance

- The results reveal an alarmingly low level of regulatory compliance. In only 48% of appointments did the advisor bring up the subject of sustainability preferences without any prompting by the client. In addition, there is significant variability in the level of regulatory compliance across target countries.
- This means that the variability in advisor behaviour observed in our previous 2021 mystery shopping campaign¹ has continued despite these regulatory changes.

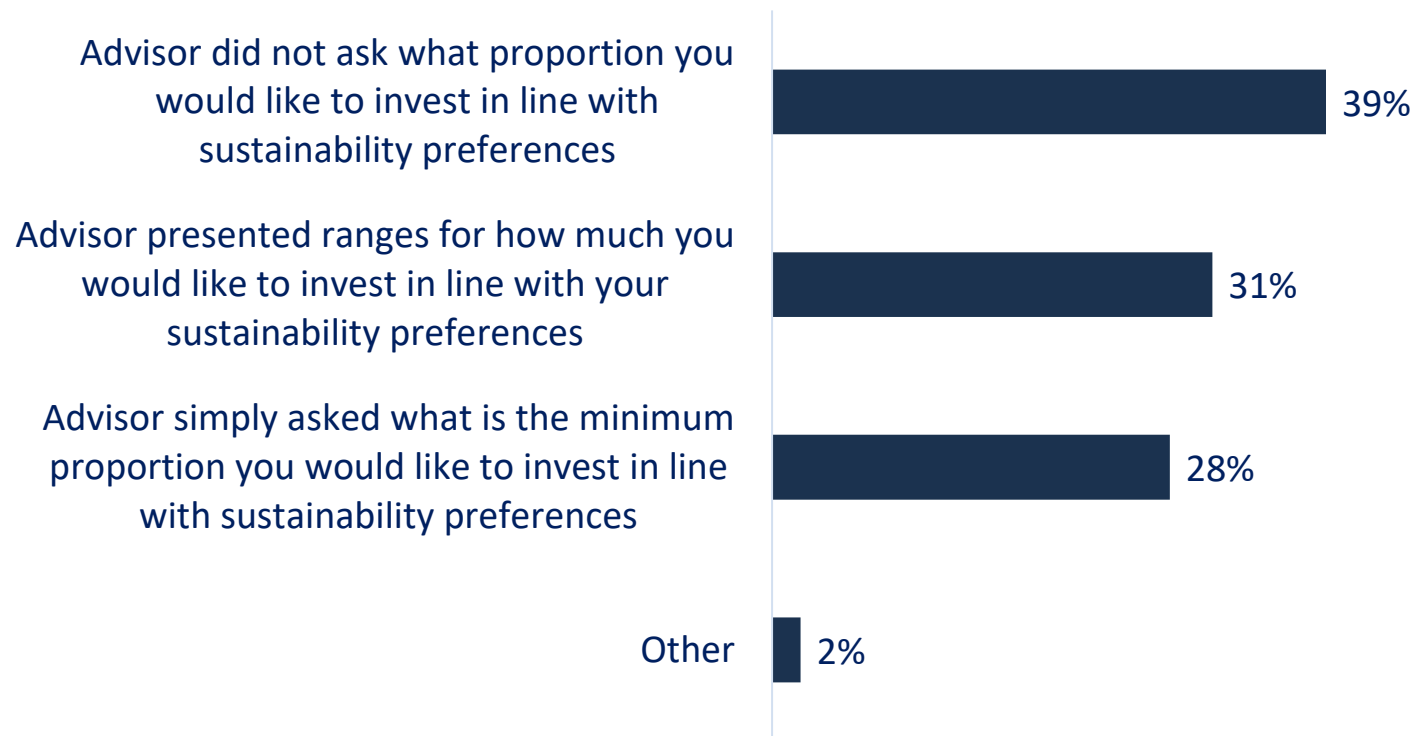
Appointments where the advisor raised the subject of sustainability preferences without any prompting



¹ 2DII (2022): [Please Don't Let Them Be Misunderstood! How financial advisors consider clients' sustainability motivations before the upcoming MiFID II Delegated Act](#)

Process not being followed

Assessment of the minimum proportion to be invested in accordance with sustainability preferences



- According to the current campaign average, the advisor did not assess the minimum proportion to be invested in accordance with sustainability preferences in 39% of appointments.
- In addition, the results raise questions as to whether record keeping by advisors is adequate.
- Without better compliance with these procedural steps it is unlikely that there will be any incentive structure for investment firms to change the profile of their financial product offering to include more sustainable financial products.

Limitations to sustainability preferences

- The definition cannot accommodate impact-oriented financial products (which a significant proportion of clients would be interested in) and it does not operate at the same level of detail (e.g. in relation to specific sustainability topics) which many clients approach the sustainability considerations for their investments.
- The results create doubt that an adherence to the regulatory definition of sustainability preferences as a means to assess client preferences for sustainable investment may not work in either the client or the advisor interest. This creates a risk of mis selling and significantly undermines the procedure articulated for the assessment of sustainability preferences during the suitability assessment.²

² See also our legal analysis on this topic [2DII \(2022\): Integrating client preferences for sustainable investment into financial institution legal duties... still a way to go](#)

Advisor sustainable finance knowledge

- Many mystery shoppers did not reveal any concerns about the level of sustainable finance knowledge of the advisor but this is inconsistent with other results which reveal low levels of regulatory compliance and generally poor level of knowledge by advisors in relation to accommodating impact-oriented investment opportunities, specific environmental topics and avoiding harmful activities.
- For clients that are interested in having an impact in the real world through their investments, the results show a distinct lack of knowledge about key aspects of the topic of investor impact.
- Therefore this raises the question whether this is a situation of both client and advisor being lost in the maze. Clients do not themselves have sufficient knowledge to be in a position where the low advisor knowledge is noticeable and apparent to them.

Recommendations

- These results are cause for concern about the operability of the retail focussed aspects of the regulatory framework that has been established following the *Action Plan on Financing Sustainable*.
- We articulate three recommendations to improve the operability of the regulatory framework and ensure that the financial sector responds appropriately to client preferences for sustainable investment:

1

Carry out a coordinated review as soon as possible to assess the level of regulatory compliance with the new suitability assessment requirements and whether the procedure articulated for assessment of sustainability preferences is appropriately designed to contribute towards the policy objective of reorienting finance towards a sustainable economy.

2

Clarify the definition of sustainability preferences and wider sustainable financial product categorisation at the earliest opportunity. The Commission should use upcoming opportunities to evaluate the current categorisation approach and conduct a comprehensive impact assessment of possible routes forward..

3

Establish a training and certification regime at EU level to ensure advisors gain the necessary expertise in accordance with a framework which articulates the minimum level of sustainable finance knowledge required.

About the funders and contact details

Access the paper here.

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