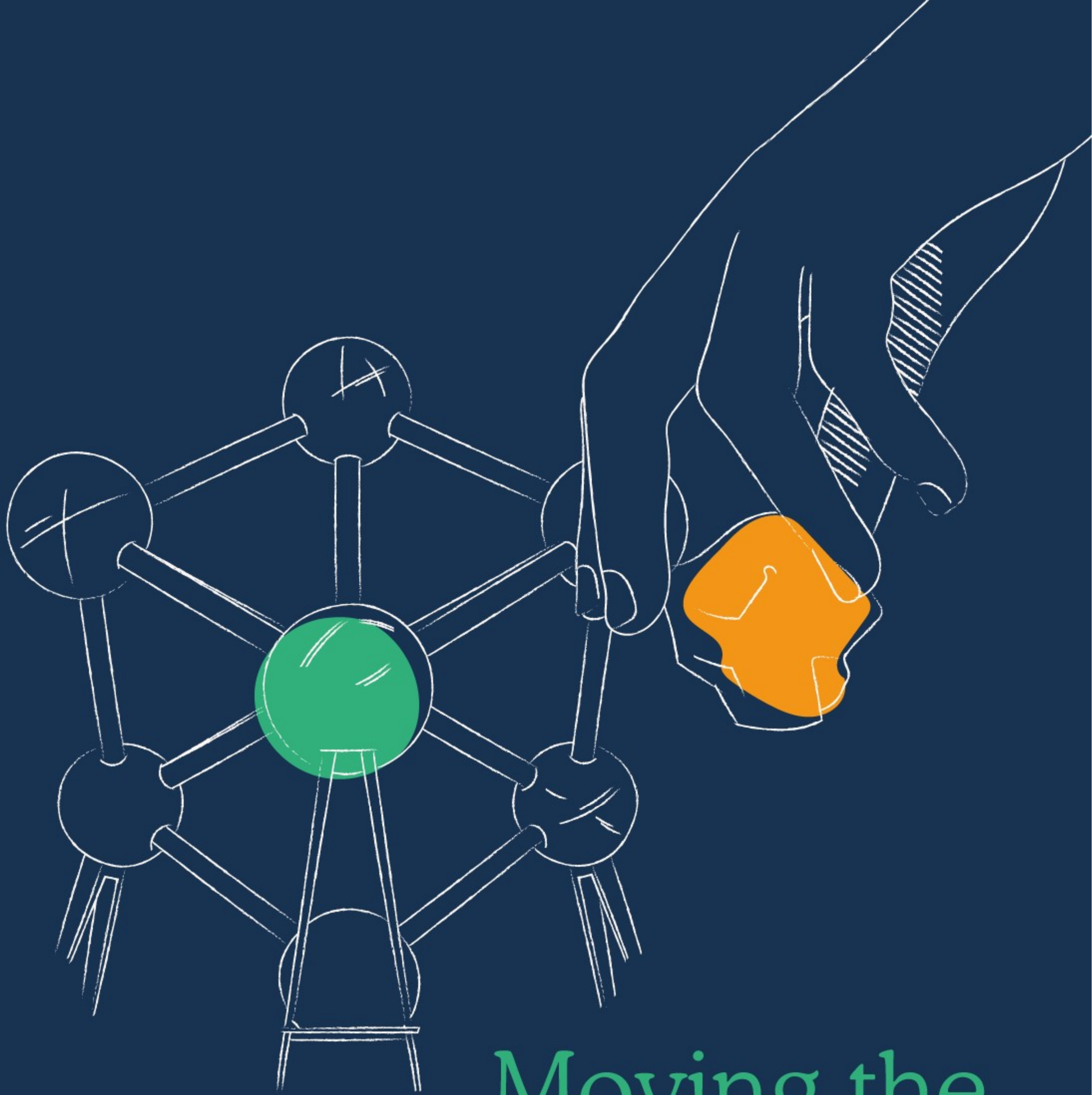

Moving the blockers of retail sustainable finance

IN BELGIUM

2° investing initiative

Table of contents

About 2
Executive summary 3
Introduction 4
What retail investors in Belgium think 5
An untapped interest for sustainable finance 5
An unclear use case 8
Mixed views on sustainable strategies 11
A need for clarification about "impact" products 12
What retail investors in Belgium want 15
A large variety of sustainability profiles 15
Inconvenient tradeoffs 16
A will to finance the energy transition 17
An interest for green alternatives 19
Blocker #1: a deficient advisory process 21
Assessing the level of regulatory compliance 22
Testing the limits of the regulatory definition of sustainability preferences 26
Advisor sustainable finance knowledge 27
Blocker #2: an inconsistent market supply 29
An overly concentrated supply 29
A market mismatch 32
Discussion and recommendations 33
Tackle persisting deficiencies in the advisory process 33
Densify and reorient market supply 37
Conclusion 41
Bibliography 42
Annex: Presentation of research materials 43
Interviews and focus groups 43
Quantitative survey 43
Mystery Shopping Visits 44

About

The 2° Investing Initiative (2DII) is an international, non-profit think tank working to align financial markets and regulations with the Paris Agreement goals.

2DII coordinates some of the world's largest research projects on climate metrics in financial markets. In order to ensure our independence and the intellectual integrity of our work, we have a multi-stakeholder governance and funding structure, with representatives from a diverse array of financial institutions, regulators, policymakers, universities and NGOs.

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The paper is part of the Retail Investing Research Program at 2DII which is one of the largest publicly funded research projects about the supply, demand, distribution and policy side of the retail investment market in Europe.

DISCLAIMER: In 2025, 2° Investing Initiative became the Sustainable Finance Observatory (The Observatory). This research is the intellectual property of The Observatory

Executive summary

This report summarises research (quantitative survey, bilateral interviews, focus groups, mystery shopping and a desk-study of a fund database) conducted by 2° Investing Initiative (**2DII**) to investigate the current situation regarding demand, supply and distribution of sustainable finance products in six European countries including Belgium.

Across countries, main results involve:

- On the **demand side**: a noticeable attitude-behavior gap with positive attitudes of retail investors towards sustainable finance not being fully translated into actual ownership of sustainable financial products. Across people, beliefs and preferences regarding sustainable finance products are highly heterogeneous.
- On the **supply side**: an insufficient and highly concentrated offer, focusing on a few sustainable strategies only. Such a concentration does not reflect the heterogeneity of clients' preferences and does not respond to the needs of impact-motivated clients. In Belgium, there are 74% of funds that are suitable for investors not interested in any sustainability feature while the (two) related profiles represent a total of only 31.6% of all retail investors.
- On the **distribution side**: a low level of compliance with the regulatory changes requiring a mandatory assessment of client sustainability preferences during the suitability assessment. This raises concerns as to whether the intended incentive structure so that the financial product offering changes to include more sustainable financial products is really in effect. It is also questionable whether advisor sustainable finance knowledge is sufficient to provide proper advice to sustainability-oriented clients.

The Belgian sustainable finance market distinguishes itself from the (6-country) European average in a few ways:

- On the demand side: we could clearly identify a less positive attitude towards sustainable finance in Belgium than in most countries (excluding the Netherlands). Respondents are less convinced that financial investments are an appropriate way to express one's values, less interested into trying to have impact, less willing to finance the green energy transition and to switch to greener financial alternatives and also report owning green assets less frequently than the EU-6 average,
- On the supply side: Belgium belongs to the front-runners in terms of proportion of funds applying a sustainable strategy (negative screening, SRI, thematic investing, etc.).

Aggregately, the report reveals several critical areas of disfunction for the European/Belgian retail market for sustainable financial products. To address those and promote integrity and efficiency in the European/Belgian retail investment market, we articulate a list of 5 recommendations:

- **Recommendation #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.
- **Recommendation 2:** The ongoing comprehensive assessment of the SFDR must be used to clarify sustainable financial product categorisation and to integrate the concept of "investor impact" which should be followed by consequent amendments to the definition of sustainability preferences.
- **Recommendation #3:** use the upcoming measures to improve knowledge and competence of financial advisors announced under the Retail Investment Strategy to define precise and comprehensive requirements around sustainable finance knowledge and competence.
- **Recommendation #4:** open high impact potential "alternative" funds to retail clients and transform existing "conventional" products into higher impact versions.
- **Recommendation #5:** launch retail sustainable products that enable an exposure to small and local economic agents.

Introduction

This report summarises research (quantitative survey, bilateral interviews, focus groups, mystery shopping and a desk-study of a fund database) conducted by 2° Investing Initiative (**2DII**) to investigate the current situation regarding demand, supply and distribution of sustainable finance products in six European countries including Belgium.

Chapters 1 and 2 document Belgian retail investor beliefs and preferences regarding sustainable financial products. Chapter 3 identifies trends in how financial advisors behave in front of sustainability-motivated clients during mystery shopping visits. Chapter 4 investigates market supply of retail sustainable financial products and the inadequacy of this supply compared to retail investor beliefs and preferences.

Aggregately, the report reveals several critical areas of disfunction for the European/Belgian retail market for sustainable financial products. Chapter 5 articulates a list of recommendations for how to address these areas of disfunction and promote integrity and efficiency in the European/Belgian retail investment market.

Chapter 1

What retail investors in Belgium think

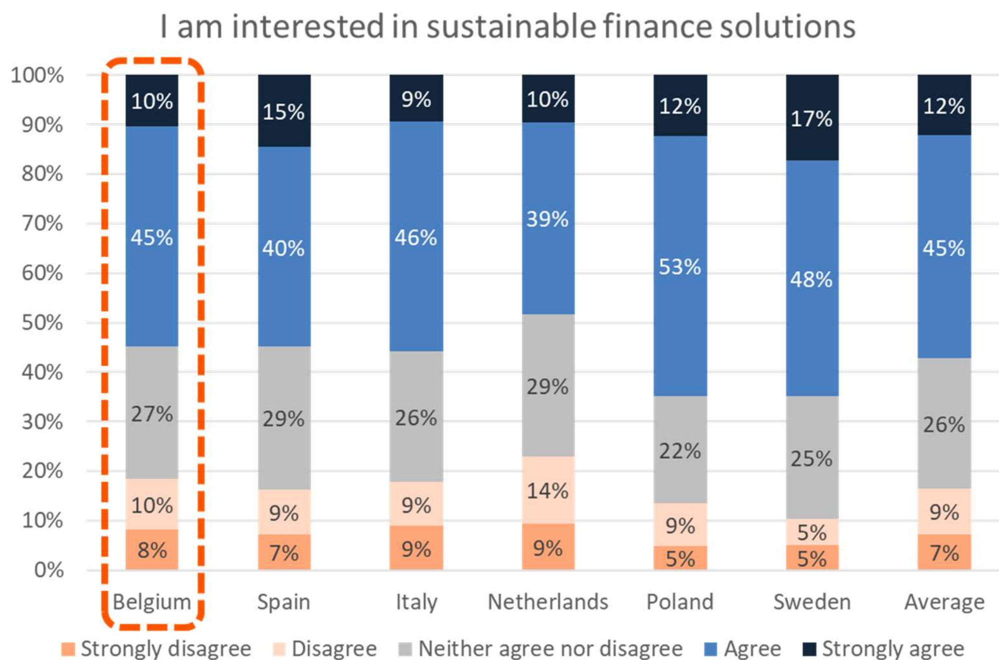
An untapped interest for sustainable finance

A clear enthusiasm

In our survey, respondents show a strong interest for sustainable finance solutions. In each country, around 50% of respondents declare an interest in sustainable finance solutions. In Belgium, interest is in line with the European average.

In interviews and focus groups, participants quasi unanimously say they would like to know more about sustainable finance, by relying on various materials (articles, podcasts, books, etc.). It mirrors their self-reported low level of knowledge.[1]

Figure 1: Interest in sustainable finance solutions



In bilateral interviews, there were also many statements about the appeal of green or sustainable investments.

A widespread attitude-behavior gap

[1] You find more information about our methodologies for our surveys and interviews and focus groups in the Annex.

An attitude-behaviour gap in relation to sustainability refers to a situation where individuals exhibit positive attitudes but fail to execute on these attitudes by engaging in sustainable behaviours. Such a gap has been widely documented in consumer decisions. Numerous studies have noted that how individuals talk does not always result in sustainable, green or ethical consumer choices. Consumers often claim to be concerned about labour conditions but buy the cheapest clothes[2]. Well-intentioned residents fall short of their energy saving goals[3]. And people say they care for animal well-being but buy the cheapest meat in the supermarket[4].

A same attitude-behaviour gap may be observed in personal financial decisions[5]. The attitude-behaviour gap is apparent when one compares retail investor willingness to invest in sustainable products and their actual financial investments. For instance, a 2020 study by Gutsche and Zwergel found that 45% of investors in Germany are interested in investing in a socially responsible manner but only 14% actually hold socially responsible investments. In France, the above mentioned OpinionWay study conducted on behalf of the AMF observed that while 76% of French people consider that the impact of investments on the environment (in terms of pollution, biodiversity etc.) is an important dimension, only 17% declare that they actually own at least one responsible or sustainable investment as part of a life insurance policy, personal equity savings plan (PEA), securities account, employee savings scheme or retirement savings account.

How to account for this sustainability attitude-behaviour gap? Studies in sustainable consumption tend to disentangle the attitude-behaviour gap of consumers into two blocks: the attitude-intention gap and the intention-behaviour gap. This decomposition is helpful to understand the blockers that prevent consumers (or investors) from walking the talk.

On one hand, the decoupling between general attitudes and concrete intentions to act may be related to overstated attitudes fuelled by a social desirability bias, or to frictional perceptions that make agents think that actions cannot be performed in real life. Such limiting perceptions could concern the availability, cost, quality or complexity of sustainable options. They may also take the form of a general distrust regarding the producers or distributors of sustainable options. Finally, consumers (or investors) may refrain from intending to act due to a low perceived consumer effectiveness (i.e. a lack of confidence in the capability of their behaviour to help solve the issue).

On the other hand, the failure to translate intentions into actions may be connected to overinflated intentions (in relation, again, to a social desirability bias or to demanding social norms), to a physical or financial impossibility (the sustainable option is not available, its price is incompatible with the budget constraint of the agent or information and search costs are too high) and/or to insufficient self-control. In the latter case, the agent is unable to resist temptations (e.g. good deals) or confront automatic decisions (e.g. habits, familiar brands) or to make the required effort to initiate the change.

The few studies covering the attitude-behaviour gap in sustainable investing confirm the role played by blockers at both levels.

From attitudes to intentions, researchers have reported the negative effects of a generalized distrust against financial institutions as distributors or manufacturers of financial products, a lack of knowledge or information about sustainable investments, negative perceptions about the returns of sustainable investments or a low perceived personal effectiveness .

From intentions to behaviours, studies confirm that information costs can deter interested investors from acting and that actual socially responsible investors are more likely to act on their views with respect to SRI and 'put their money where their mouth is' thanks to a more agentic personality . It is noticeable that there is a strong positive correlation between the propensity to move from intentions to actions in the consumption domain and in the financial domain.

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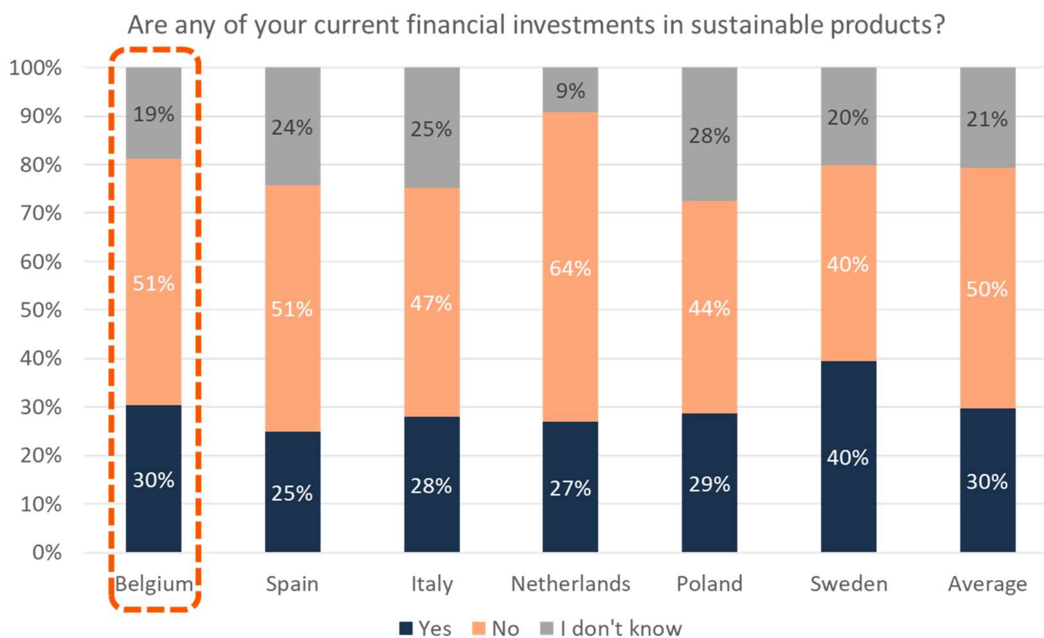
[2] Park and Lin (2020)
[3] Zhang et al. (2021)
[4] Klink and Langen (2015)
[5] Gutsche and Zwergel (2020), Brunen and Laubach (2021)

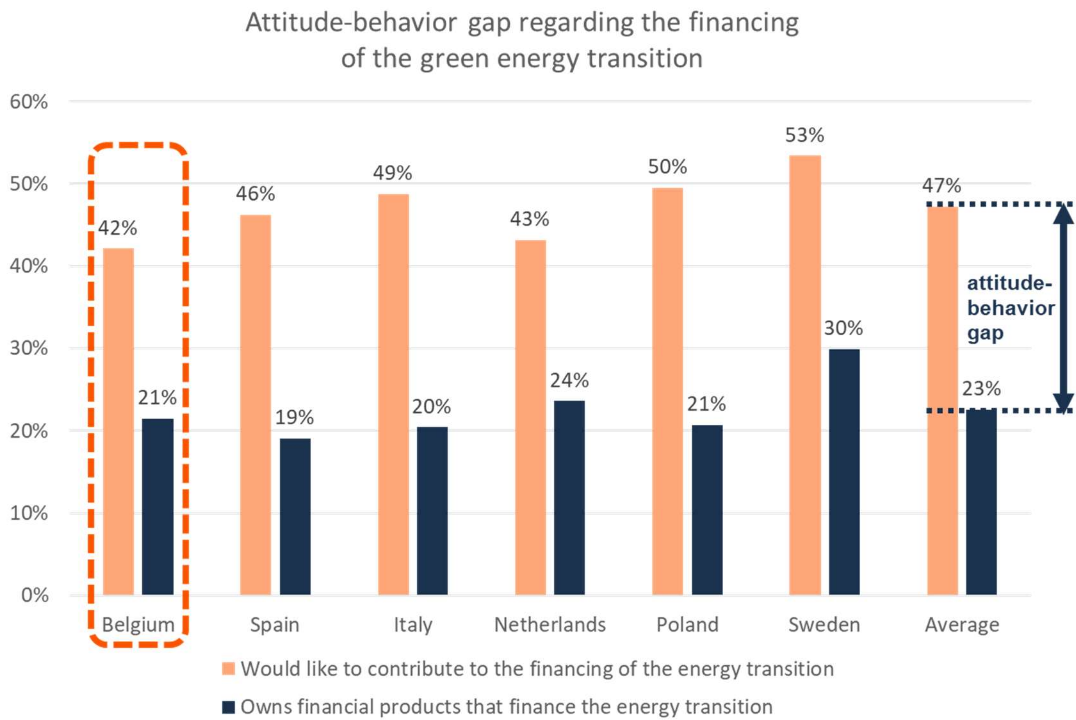
Finally, it is noticeable that in some contexts, retail investors act according to their stated sustainability preferences despite negative financial consequences . Further research is needed to identify which specific contexts and interventions help to remove (part or all) the attitude-behaviour gap.
The findings of our quantitative surveys confirm the existence of a significant attitude-behaviour gap with regards to sustainable finance products. Despite the clear interest in the topic by most participants in our surveys, only a fraction admits to walk the talk. In each country, only a minority of respondents say they already own sustainable financial products. In Belgium, the situation is similar to most other European countries where less than a third of respondents already own sustainable investments.

Figure 2: Holdings of sustainable financial products



The attitude-behavior gap is also remarkable when comparing the expressed will to contribute to the financing of the green energy transition and the actual holdings of financial products that participate to this financing. In each country, there are 20%-30% of respondents that would like to finance the energy transition but do not own financial products doing that. It means there might be an untapped potential for green financial products. The attitude-behavior gap in Belgium is in line with the European average.

Figure 3: attitude-behavior gap regarding the energy transition financing



An unclear use case

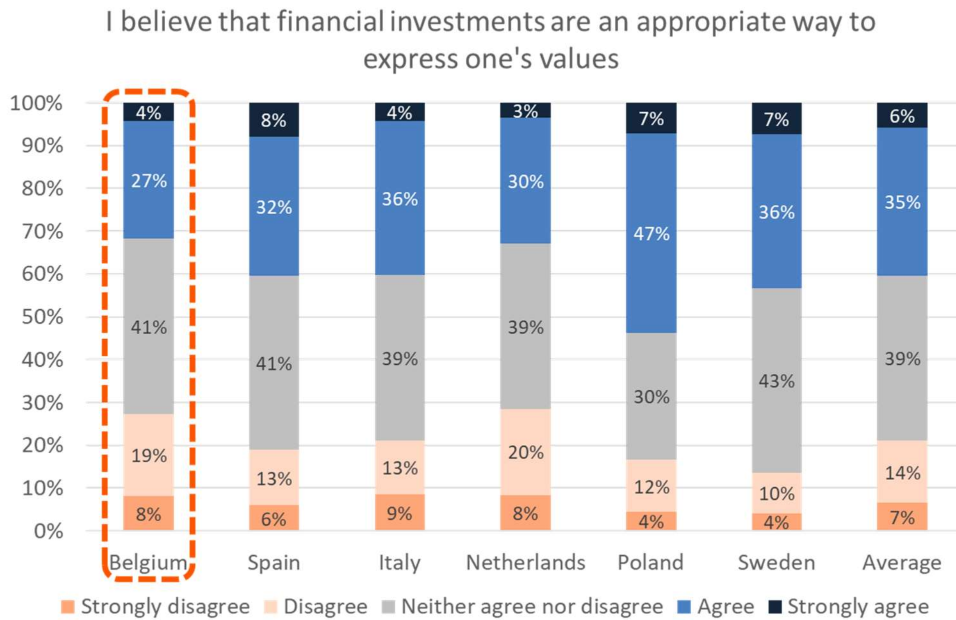
Respondents of our surveys across Europe seem not to be sure about how to use available sustainable financial products. This may be connected to a lack of technical knowledge, a lack of trust in product manufacturers or a lack of clarity in product descriptions. Those blockers have been highlighted in a previous 2DII study with focus on France[6].

Aligning with one's values

In each country, more respondents consider financial investments to be an appropriate way to express one's values than the opposite. Nevertheless, a particularly high fraction of respondents across countries (between 30% and 40%) does not have a clear idea about it. In Belgium, the fraction that agrees is significantly lower than the European average.

[6] 2DII (2022), Jumping the barriers to sustainable retail investment in France.

Figure 4: sustainable finance as a tool to align with one's values

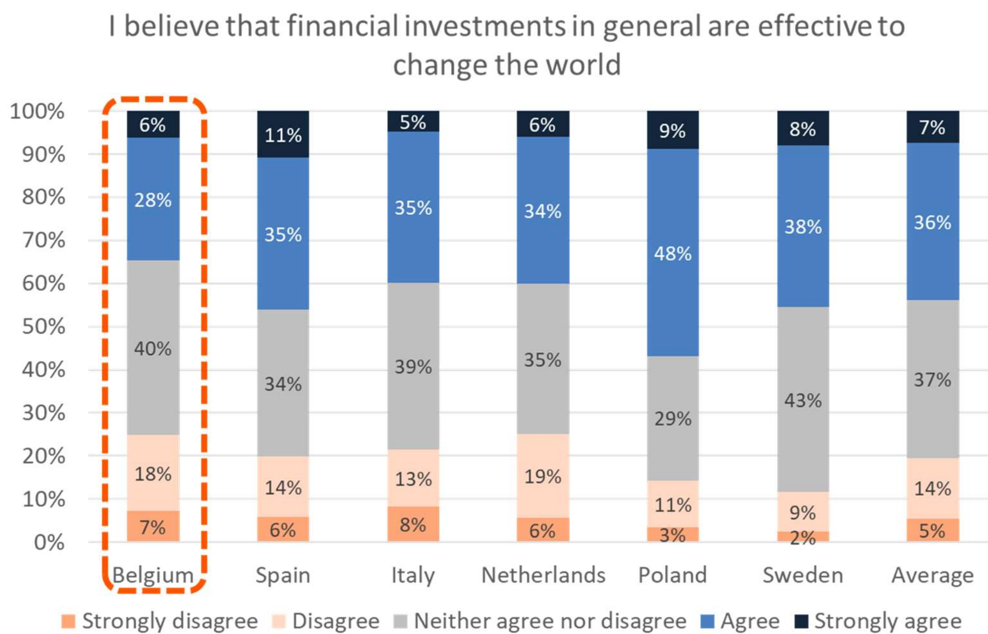


Generating an impact

In the same vein, more respondents consider financial investments to be effective to make a difference than the opposite. Once again, across countries, a particularly high fraction of respondents (between 30% and 40%) does not have a clear idea about it. It is to be noted that individual answers for expressing values and changing the world strongly correlate.

In Belgium, respondents are less confident than elsewhere in the ability of financial investments to make a change.

Figure 5: sustainable finance as a tool to generate impact



Specifically, we asked in interviews whether sustainable finance was an efficient tool to contribute to the energy transition and fight climate change, per se or by comparison to other tools like activity bans or a carbon tax. Respondents do not agree on the most appropriate tools to deliver a change.

> *"Yes, I think every little bit of money into something good is a positive sign and this can help the future."*
>
> *"There are things you can't ban because then we can't live. But a ban is still more efficient than investing because this applies to everyone."*
>
> *"I think banning or something like that is putting a band-aid on the wound, it's better to start at the root of the problem. So, I'd rather invest in a sustainable future because I think this has a larger effect on the future".*[7]

Improving financial returns

In our quantitative survey, we could observe very diverse opinions regarding this question. Still, more respondents consider the effect on returns to be positive than the opposite. Respondents in Belgium have a more nuanced/uncertain opinion of the effect on returns than respondents in other countries.

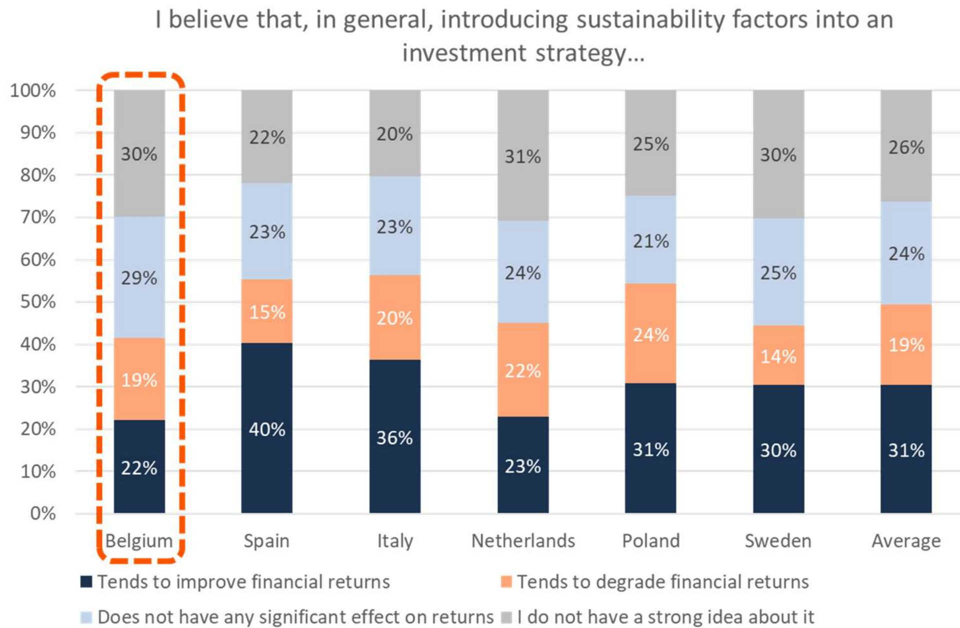
In interviews and focus groups, participants often highlight that the impact on returns shall depend on the time horizon.

In the short run, it might be negative due to increased costs of sustainability for companies while in the long run it should be positive by offering a competitive edge towards laggards and enabling leaders to benefit from supporting regulations.

> *"Today the return will be lower, but the potential future gains can be really high. So as a long-term investment I would choose it over the conventional one."*
>
> *"I think sustainable financial products have lower returns. They are going to make less profit because they have to pay attention to more things and also have highest costs".*[8]

[7] Quotes gathered from our bilateral interviews and focus groups in the studied country in order to embody results from the survey.
[8] Ibíd. 7

Figure 6: sustainable finance as tool to increase returns



Mixed views on sustainable strategies

Exclusion

When explained the strategy of exclusion, participants in interviews or focus groups report they find the strategy easy to understand and well-suited for aligning one's savings with one's personal values. Oppositely, it is often viewed as hard to implement and encompassing negative side effects, for instance by leaving more room to other non-sustainable investors to get financial returns and influence companies. And the strategy requires both self-awareness from investors and a good knowledge of companies' activities and processes.

> *"The strategy is really good, because any company we exclude will feel the pain and be incentivized to change."*
> *"Exclusion is a complicated story because often retail investors decide on emotion more than on facts or understanding in full the complexity of a topic".*
> *"I want this approach to work but I don't think it will. For instance, if you exclude weapons how far will you go? Until there are no weapons? Also, I think it's hard to limit exclusions to a single product/company/country."*[9]

Best-in-class

When explained the best-in-class approach, respondents report conflicting views. While some consider it intrinsically illogical (why favoring companies that are already more advanced?), others find it a good way to emulate companies to adopt the most sustainable processes.
Financially skilled respondents note that this strategy, unlike exclusions, enable the investors to hold portfolios that remain sector-diversified. But, at the same time, the strategy mechanically reduces the basket of invested companies, increasing specific risk.
In any case, as pinpointed by some respondents, the perceived relevance of the strategy lies on the trust in ESG ratings.

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[9] Ibíd. 7

> *”This is always a good strategy because you invest in companies that are already doing well so you know that your money is really used sustainably.”*
> *”Good approach to give your money to strengthen sustainable champions.”*
> *”I don't think this is a good approach because then you disadvantage companies that are not doing well in the field of sustainability, and ultimately you want to help them do better. With this approach, non-sustainable companies cannot make the transition to positive contributors!”[10]*

Thematic investing

When explained the strategy of thematic investing, respondents consider it to be a good way to express one’s values and aspirations for people that already have strong views. For companies, it is a way to channel capital towards companies that contribute to the long-term objective.

On the other hand, it implies that the portfolio will be concentrated on a few sectors only and, consequently, lack diversification. Therefore, it is well-suited for investors with low risk aversion.

Engagement

When explained engagement, participants in interviews or focus groups reported both an attraction and a suspicion about the promise to generate real-world impact.

A need for clarification about “impact” products

Across countries, we could observe in qualitative interviews and focus groups that participants had various interpretations of what the “impact” of financial investments would be, with several typical understandings:

- The “impact on wallet” view, for which impact is the financial return
- The “impact on society” view, for which impact represents the effects on the external world
- The “mixed impact” view, which considers the two angles altogether

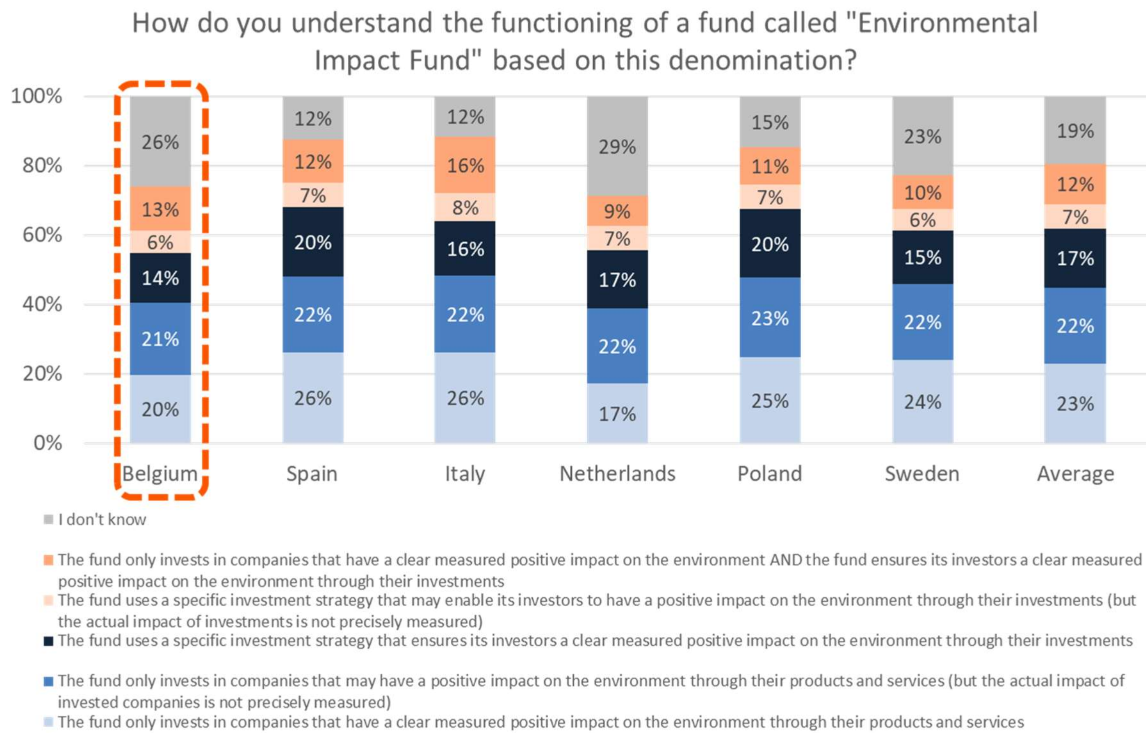
Those multiple interpretations suggest there is a crucial need to constantly qualify “impact” in order to avoid misunderstandings.

> *“It means that you can see the impact after 50 years of investing.”*
> *“It means that my investments help to make new sustainable solutions work. I really want to see change in the world.”[11]*

In the survey, we asked participants what lies behind an “Environmental Impact Fund”. In all countries, there were very diverse opinions regarding the question suggesting that the denomination is equivocal. In Belgium, perceptions were as diverse as in other European countries.

[10] Ibíd. 7
[11] Ibíd. 7

Figure 7: what an "Environmental Impact Fund" is



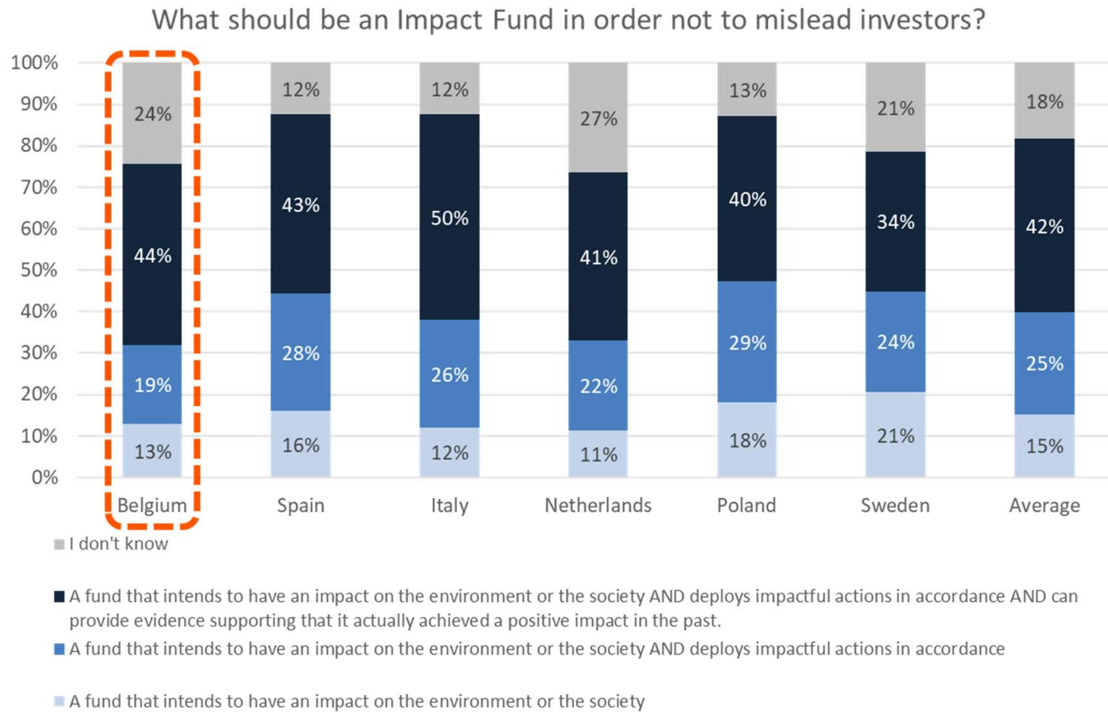
When explained the strategy of impact investing, participants in interviews or focus groups reported both an attraction and a suspicion about the promise to generate real-world impact. To buy products applying the strategy, they require an extensive view of the mechanisms of impact that are actioned and transparency on both past outcomes and methodologies to assess impact. Doubts are often raised about the capability to really evaluate impact *ex ante* or measure it *ex post*.

> *"It is a really good approach as long as the predictions are right. I would want to see how accurate the predictions were (how much impact was actually achieved) in the past."*
> *"Not so good because you only pick up companies with a lot of impact, but companies that don't have much impact actually remain bad in terms of sustainability. In the long run, I want every business to become sustainable".*
> *"I see uncertainty in this approach. Words like "potentially" and "probably", therefore I'm not certain the claims of impact are really true."*[12]

In the quantitative survey, we also question what an impact fund should be and do in order not to mislead investors. In all countries, there were again pretty diverse opinions regarding the question, but the most frequent answer applied to the most demanding (and protective) definition while the purely intentional definition was the least often selected. Respondents in Belgium opted for the most protective definition as often as the European average.

[12] Ibíd. 7

Figure 8: what an "Impact Fund" should be



In interviews and focus groups, participants generally consider that measuring and disclosing one's impact is practically difficult for funds. They are divided between those that see it as important to avoid greenwashing or impact-washing and others that perceive it as only a "nice-to-have". For the latter, it is enough to have evidence that the fund actively contributes to a collective movement towards sustainability or has a clear positive attitude towards a certain environmental or social issue.

What retail investors in Belgium want

A large variety of sustainability profiles

In our quantitative survey (see Annex for further details), we asked participants a series of questions regarding their financial or sustainability objectives for different financial goals attached to their savings (e.g. save for retirement, generate a precautionary buffer, increase personal wealth, finance personal projects etc.). We consider three types of overarching objectives, two being related to sustainability (**aligning savings with one's values** and **having an impact** on the world) and one being purely financial (**achieving maximum risk-adjusted return**).

The sustainability objectives of a retail investor participate to what we term *wider sustainability motivations* (see Info Box on following page) which are typically not covered by MiFID II Delegated Act on sustainability preferences. By averaging the answers for the various saving goals, we were able to generate a typology of seven "sustainability profiles", either pure (focusing on one goal only) or mixed (caring for two or three goals) as displayed in the following table.

In all countries, a majority of respondents have a mixed profile, combining various motivations. On average, 50% of European respondents are willing to have impact with their savings. In all countries, the "pure impact" profile is the least frequent while the most frequent one is the "value + impact + return" profile. In all countries, less than a fifth of respondents do not have sustainability motivations beyond maximizing returns.

The distribution of profiles in Belgium resembles the European distribution with fewer respondents in the "value + impact + return" group.

Table 1: distribution of sustainability profiles

	Survey 2021						Survey 2022						Average EU-12
	Denmark	Estonia	Germany	Greece	Ireland	Romania	Belgium	Italy	Netherlands	Poland	Spain	Sweden	
Pure impact	10%	9%	11%	10%	9%	7%	**2%**	3%	3%	2%	3%	2%	**6%**
Pure values	10%	13%	16%	11%	9%	7%	**7%**	5%	13%	4%	5%	3%	**9%**
Pure return	30%	20%	20%	16%	22%	11%	**15%**	9%	11%	8%	11%	20%	**16%**
Mix of impact and return	4%	3%	3%	5%	5%	3%	**3%**	6%	3%	5%	6%	6%	**4%**
Mix of values and return	16%	23%	12%	15%	12%	17%	**20%**	10%	20%	18%	9%	18%	**16%**
Mix of values and impact	4%	3%	7%	6%	5%	4%	**7%**	7%	9%	3%	8%	5%	**6%**
Mix of values, impact and return	17%	21%	19%	31%	33%	47%	**30%**	45%	24%	54%	48%	36%	**34%**
No clear profile	9%	10%	12%	8%	6%	4%	**16%**	16%	18%	8%	10%	10%	**11%**

Source: 2DII, values have been rounded

Across countries, we could observe in qualitative interviews and focus groups that participants often connect their sustainability motivations to specific concerns:

- Acting in an ethical/moral way
- Acting for the long-term or children
- Acting in a way that is modern or consistent with the latest stage of the technology
- Feeling good about themselves

Info Box: Wider sustainability motivations

We use the term *wider sustainability motivations* to refer to broader client preferences for sustainable investment which are not covered by the regulatory concept of sustainability preferences.

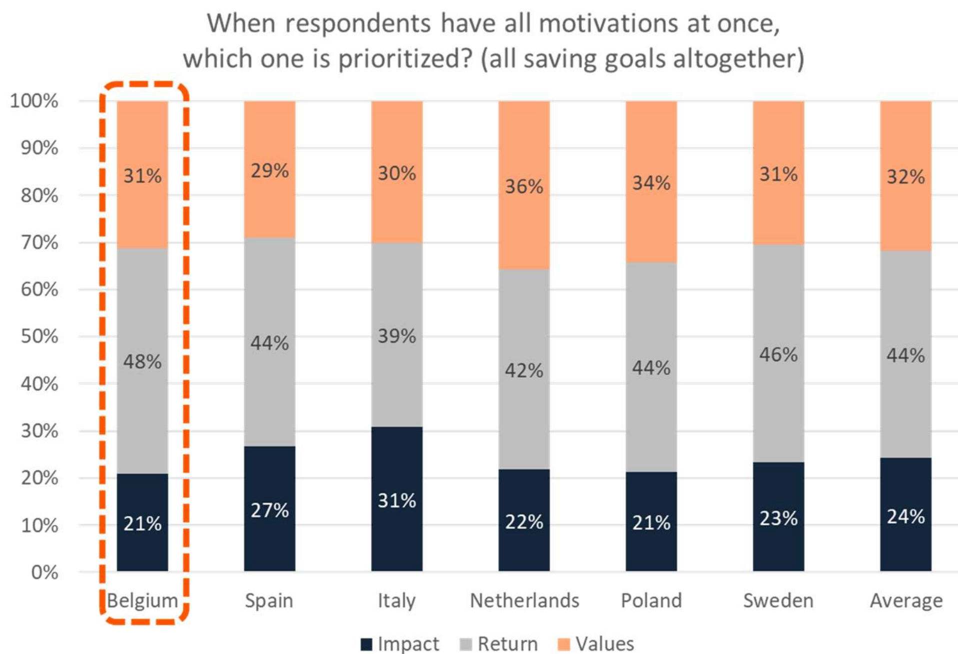
Wider sustainability motivations therefore cover aspects such as the sustainability goal (i.e. achieving impact, value alignment and/or maximising return and specific sustainability features which a client may want to support or avoid beyond those mentioned in the regulatory concept of sustainability preferences in the MiFID II Delegated Act.

Over the last three years, 2DII's research programme has sought to improve the evidence base as to what sustainability motivations clients have, what outcomes clients expect and why, and how these expectations intersect with the range of financial products available which integrate sustainability features in product design[13].

Inconvenient tradeoffs

Respondents falling in mixed profiles may face tradeoffs in case available products do not respond to all their requirements. Most respondents tend to favor returns in case of necessary tradeoffs between their personal sustainability motivations. In Belgium, the way respondents prioritize is very similar to the European average.

Figure 9: prioritization across sustainability motivations

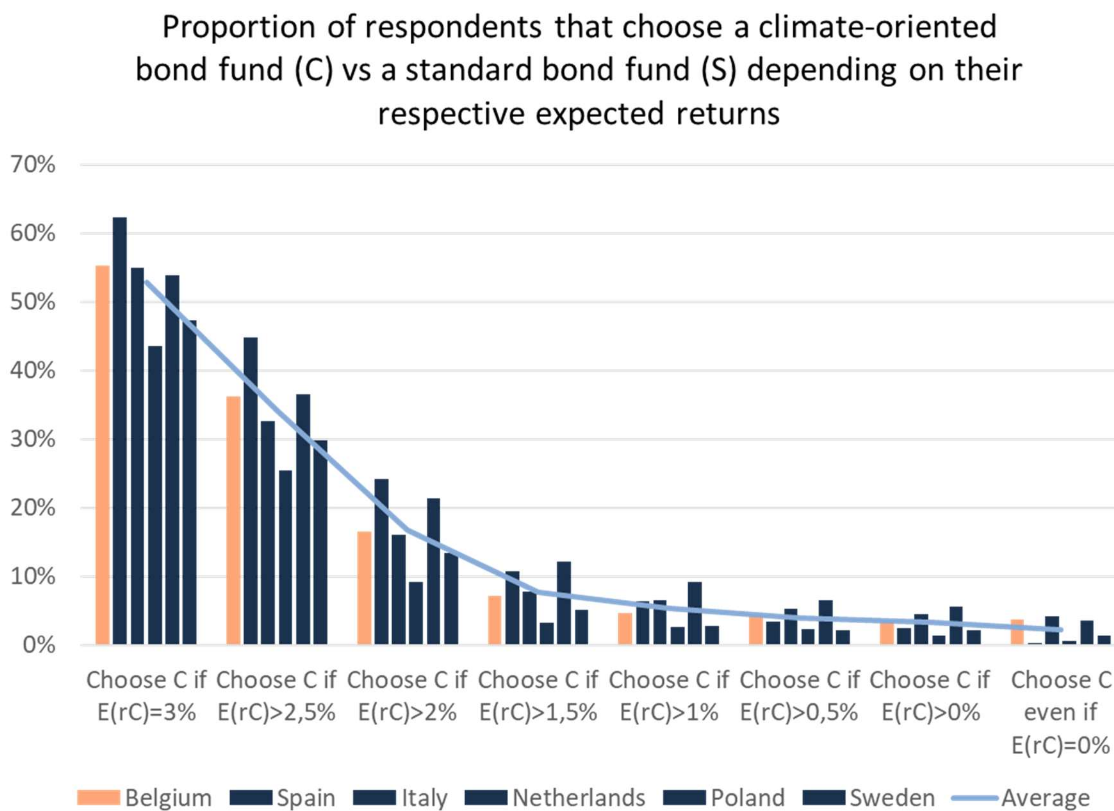


[13] See 2DII, (2020); 2DII, (2022).

In the survey, we also used an iterative question to evaluate how much choices for sustainable options were dependent on required financial trade-offs. Precisely, we asked participants to choose between a conventional (bond or equity) fund and a similar fund with a climate orientation depending on the spread in expected returns between the two products.

In each country, the proportion that chooses the climate fund falls rapidly when expected return is lower than for the standard fund. Everywhere, only a handful of respondents (less than 12%) choose the climate fund when expected return is cut by half. In Belgium, as in other countries, the fraction of respondents choosing the climate-oriented fund drops fast as the gap in returns broadens.

Figure 10: effect of return on the choice between a sustainable fund and a conventional fund



In interviews and focus groups, participants often claim they would tolerate lower returns for sustainable financial products in relation with higher fees but they'd do it with a dose of reluctance and suspicion. They require a high level of transparency on the reasons behind the higher fees.

> *"If the higher fees are motivated, then yes. I would need to understand for which reason they are higher. If sustainable investments require more energy, specialization, knowledge, I will understand the higher fees."*
> *"If the fees are higher, I would still invest in it but wouldn't be happy. Why would they require higher fees? Still, as I really want to act sustainably, a slightly elevated cost would not deter me."* [14]

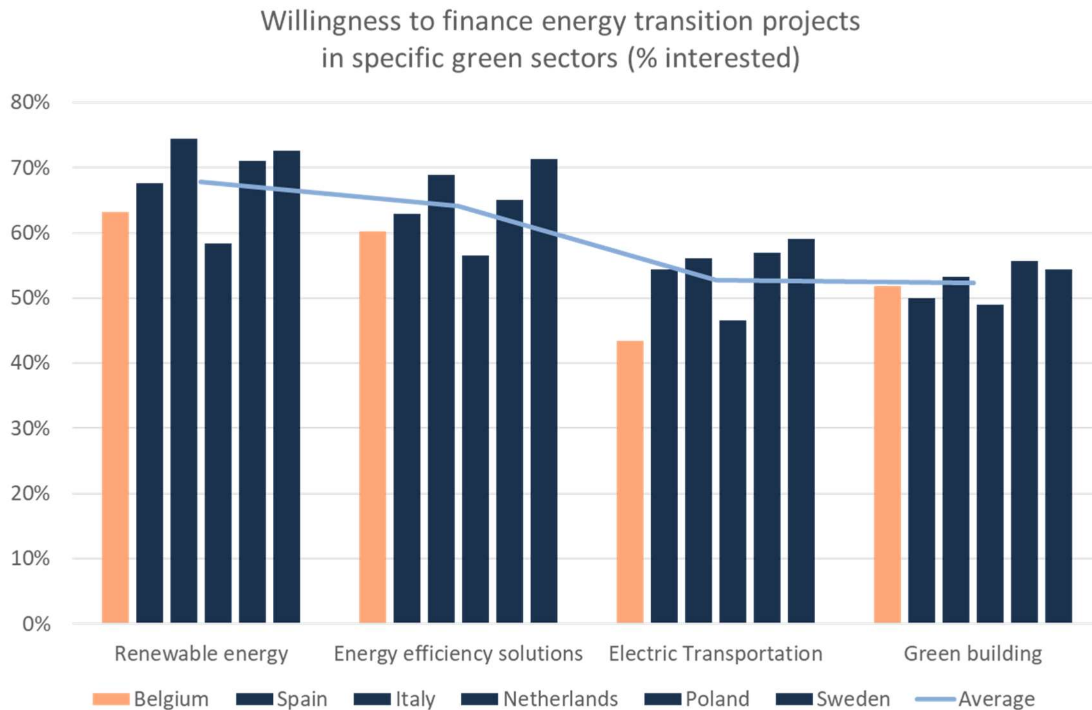
A will to finance the energy transition

In the quantitative survey, we could identify a significant will to finance the green energy transition. The interest appears to more pronounced when the question is specific compared to general, i.e., when sectors,

[14] Ibíd. 7

beneficiaries or geographic zones are made explicit. For instance, proportion of potential funders increases by 10-20 pp when sectors are specified.
Across countries, we observed a clear preference for financing projects in renewable energy and energy efficiency sectors compared with other sectors. In Belgium, respondents displayed a willingness to finance slightly inferior to the European average for all sectors.

Figure 11: willingness to finance the energy transition in specific sectors



We could observe low variations across potential beneficiaries. Financing projects for households appear to be slightly more appealing. This result advocates for new types of green financial solutions as current ones most often target (large) companies. In Belgium, the willingness to finance is lower than the European average for all types of economic agents while the willingness to finance projects from large corporations is similar than for SMEs. In interviews and focus groups, some participants report a preference for financing (large or small) companies as they perceive them as more effective to allocate capital in an efficient way compared to administrations. Small companies are also perceived to be more innovative and therefore have a higher impact potential while large companies are seen as less risky.

In terms of geographic zones, across countries we note a clear preference for financing nationally or locally. For all zones, respondents in Belgium are less inclined to contribute than the European average. In interviews and focus groups, participants explain their preference for local/national projects by referring to a lower (perceived) risk or a higher transparency and easier access to information. They sometimes also connect it to an enhanced emotional salience and to the possibility to benefit from it. Oppositely, and much less frequently, others prefer investing in developing countries as they consider the funding gap to be more pronounced there and observe that it is necessary to raise the bar everywhere to solve global issues. A third category do not focus on the zone and consider the selection process should apply at the project level only.

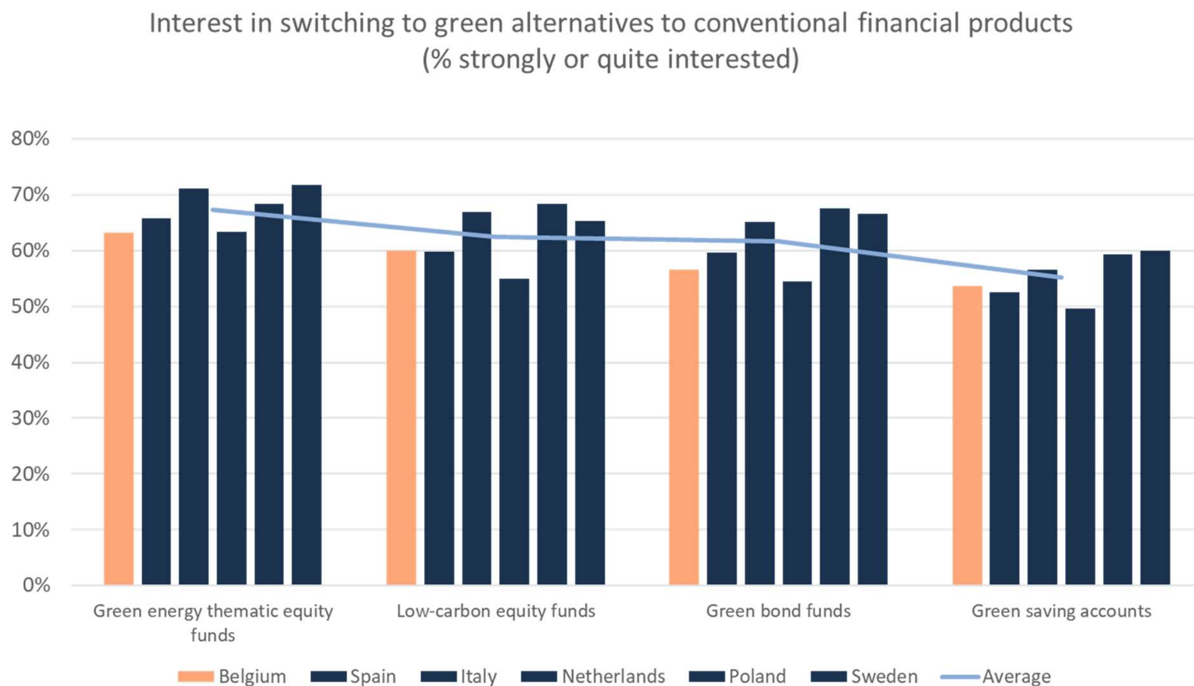
“I would invest everywhere because not only Belgium needs to get better at sustainability. The whole world needs to do better and we can help fund the change.” [15]

An interest for green alternatives

In the survey, we presented respondents green alternatives to conventional financial products and asked them about their willingness to switch to those alternatives. For all types of conventional financial products, a majority of respondents declares to be interested into switching to the proposed greener alternative. Thematic equity funds are the most appealing alternative while green saving accounts are the least one. The interest in switching is lower in Belgium than the European average. In interviews and focus groups, respondents that declare not to be interested explain it by displaying a low trust/knowledge about those products and fear a “green bubble” that would lead to poor returns in the future.

“The green savings account is something I’m interested in because it's accessible for everyone and the conventional one doesn't give a lot of return anyway.”
“My trust in the products has to be earned.” [16]

Figure 12: interest for switching to green alternatives



Finally, we end up this section with a summary of the main results gathered from our quantitative and qualitative materials.

[15] Ibíd. 7
[16] Ibíd. 7

Table 2: survey and interview results in a nutshell

Cross-country	Country-specific

✓ A general lack of knowledge but an interest for and a positive attitude towards sustainable finance (solutions)
✓ A high level of heterogeneity in beliefs and motivations across people, with some regularities:
  ✓ Between 40% and 60% of retail investors want to have impact
  ✓ The most common profile is the “I want it all” profile
✓ A limited ownership of green financial solutions
✓ A very frequent attitude-behavior gap regarding the financing of the green energy transition, to be connected to the lack of knowledge, information costs and a low level in trust
✓ A large variety of perceptions of what “impact funds” are but a more consensual perception about what they should be
✓ Despite the recent takeoff, an untapped potential for many green retail investment or borrowing solutions
  ✓ Due to current asset allocations of financial investments held in direct or via intermediaries, market potentials are most often highest for deposits in green saving accounts and green bond funds
	✓ We could clearly identify a less positive attitude towards sustainable finance in Belgium than in most countries (excluding the Netherlands). Respondents are:
	  ✓ Less convinced that financial investments are an appropriate way to express one’s values
	  ✓ Less interested into trying to have impact
	  ✓ Less willing to finance the green energy transition and to switch to greener financial alternatives
	  ✓ Less interested in the possibility of voting on climate issues at shareholder annual general meetings
	✓ Respondents in Belgium also report owning green assets less frequently than the EU-6 average

As shown in this chapter, there is a significant attitude-behaviour gap and market potential for sustainable and green financial products in Belgium. According to our surveys, interviews and focus groups, we assume that there is a real appetite of certain retail investors in Belgium to move from their conventional investments to green ones in relation to different motivations. In the next chapters, we discuss the barriers which impede Belgian retail investors to walk the talk.

Chapter 3

Blocker #1: a deficient advisory process

Financial advisors represent **a key entry point** for retail clients to obtain information about financial products. They represent the main information channel for retail clients in relation to financial considerations[17] and they are similarly key for retail clients to learn more about sustainable finance options, as shown by several recent surveys (e.g. a 2021 study by Nordea reveals that 73% of EU retail investors identify their advisor as their main source of ESG information[18]).

Through providing investment and insurance advice to clients, financial advisors have a central role in reorienting finance towards a sustainable economy in line with broader sustainable finance policy objectives.[19] To ensure this role is effectively utilised,[20] delegated regulation[21] 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 section summarises the results of our mystery shopping campaign to assess financial advisor behaviour in the context of these new regulatory requirements to assess client sustainability preferences.[22] The *current campaign average (EU9)* results refer to the latest round of mystery shopping visits targeting bank networks in Italy, Netherlands and Spain[23] as consolidated with previous results for Ireland, Greece, Estonia, Romania, Germany and Denmark.[24]

The results summary is grouped in three themes (although note that this results summary cannot be considered as statistically representative of market behaviour because of a limited sample size):

- Assessing the level of compliance with the regulatory provisions introducing 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 (in particular whether the definition can accommodate impact-oriented clients).
- Assessing the level of sustainable finance knowledge by financial advisors to provide financial product recommendations to clients with sustainability preferences.

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[17] OpinionWay, 2021, Les Français et les placements responsables

[18] Nordea, 2021, Less than 250 days to go - Are advisors ready for the MiFID and ESG challenge?, 2021 ESG Survey

[19] As recognized in EU High Level Expert Group on Sustainable Finance, 2018, Financing a Sustainable European Economy and subsequently in the EU Action Plan on Financing Sustainable Growth

[20] Our mystery shopping campaigns prior to these regulatory changes (see 2DII, 2022, *Please Don't Let Them Be Misunderstood*) showed that financial advisors do not proactively ask clients about their preferences for sustainable investment. This means that clients do not express any preferences for sustainable investment which in turn leads to lower observable demand and a corresponding reduced supply of sustainable financial products.

[21] Commission Delegated Regulation (EU) 2021/1253 of 21 April 2021 amending Delegated Regulation (EU) 2017/565 as regards the integration of sustainability factors, risks and preferences into certain organisational requirements and operating conditions for investment firms (the **Commission Delegated Regulation**). This integrates the concept of *sustainability preferences* into the existing regulatory provisions (contained in MiFID II and Commission Delegated Regulation (EU) 2017/565 of 25 April 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council as regards organisational requirements and operating conditions for investment firms and defined terms for the purposes of that Directive (**MiFID II Delegated Regulation**)) setting out the procedural steps for the suitability assessment. In addition, ESMA has released updated *Guidelines on certain aspects of the MiFID II suitability requirements* (the **ESMA Guidelines**).

[22] You find more information about our methodologies for our mystery shopping visits in the Annex.

[23] In addition, eight mystery shopping visits in Sweden.

[24] See 2DII, 2023, *Assessing client sustainability preferences … lost in the maze?* for discussion of the results for Ireland, Greece, Estonia, Romania, Germany and Denmark in isolation.

Assessing the level of regulatory compliance

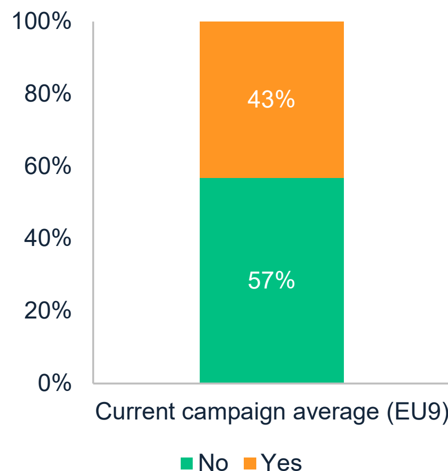
Are sustainability preferences included in the suitability assessment?

Research Question 1: Do advisors bring up the subject of sustainability preferences without any prompting?

The assessment of sustainability preferences is now mandatory and represents a significant change to current market practice in relation to the suitability assessment.[25] Investment firms must implement many changes to be compliant with the new requirements. But the open hearing on the revised ESMA Guidelines[26] revealed a collective inertia by financial institutions and a risk they have not yet revised their operational procedures so that sustainability preferences are included in the suitability assessment.

According to the current campaign average (EU9) result, in only 43% of appointments did the advisor bring up the subject of sustainability preferences without any prompting by the client. Therefore the level of regulatory compliance appears to be less than half. Indeed the current campaign average (EU9) result is lower than what was reported in our previous discussion of mystery shopping results.[27] The results also reveal significant variability in the level of regulatory compliance across different countries (ranging from 13% to 74%).

Figure 13: Appointments where the advisor raised the subject of sustainability preferences without any prompting



Explanation of sustainability preferences

Research Question 2A: Do advisors provide an explanation of sustainability preferences?

Investment firms must provide an explanation of sustainability preferences[28] for clients to articulate and advocate effectively in relation to their own sustainability preferences. Without this explanation of sustainability preferences to the client, any assessment of the client's own sustainability preferences will be flawed.

The remaining results to assess regulatory compliance need to be interpreted in the context of the low level of regulatory compliance identified above.[29] Despite this low level of regulatory compliance in bringing up the subject of sustainability preferences without any prompting by the client, the current campaign average (EU9)

[25] See 2DII, 2022, *Please Don't Let Them Be Misunderstood!* for analysis of market practice before the Commission Delegated Regulation came into force.
[26] Held on 18 March 2022 from 10.00 to 12.00 (CET) https://www.esma.europa.eu/press-news/hearings/open-hearing-consultation-guidelines-certain-aspects-mifid-ii-suitability
[27] See 2DII, 2023, Assessing client sustainability preferences … lost in the maze?
[28] Recital 6, Commission Delegated Regulation, Art 52(3), MiFID II Delegated Regulation
[29] In only 43% of appointments did the advisor bring up the subject of sustainability preferences without any prompting by the client. However, mystery shoppers were instructed that where it was absolutely clear that an advisor was not going to raise the subject of sustainability preferences, then the mystery shoppers were instructed to raise the subject themselves.

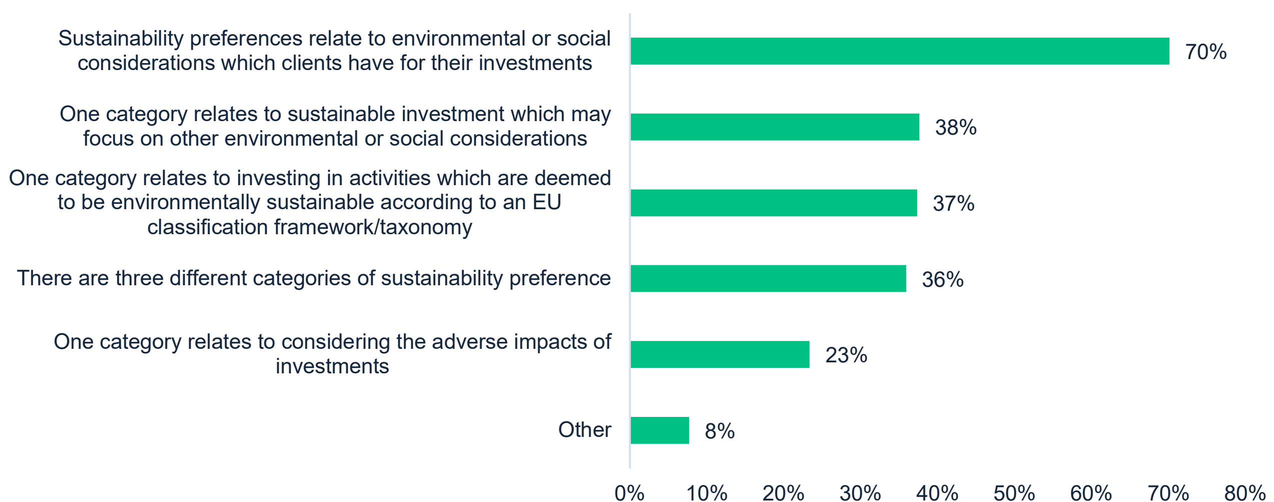
result is that advisors provide an explanation of sustainability preferences in 83% of appointments. This raises a question as to why many advisors are not bringing up the subject of sustainability preferences themselves but are then able to provide an explanation of sustainability preferences when prompted by the client? Does this indicate that many advisors are consciously choosing not to assess sustainability preferences initially, but are in fact able to do so if prompted by the client?

Research Question 2B: What is typically included in advisors' explanation of sustainability preferences?

The explanation should provide accurate and sufficient information to enable clients to take informed decisions. However, regulatory provisions[30] and associated guidance[31] enable a high degree of flexibility in relation to what is included in the explanation of sustainability preferences.[32]

In our previous discussion of mystery shopping results[33], we summarised that the explanation of sustainability preferences was generally not comprehensive. Although advisors often link the explanation of sustainability preferences to environmental or social considerations, any explanation of key concepts such as principal adverse impacts etc. was not adequate. This broad observation continues to be apparent. Indeed, the explanation of sustainability preferences is a key area where we have significant concerns that there is little harmonisation in market practice (which in turn raises questions about variability in the degree to which retail clients are informed and empowered to articulate and advocate for their own sustainability preferences).

Figure 14: Content typically included in the explanation of sustainability preferences (current campaign average (EU9), multiple answers possible)[34]



According to the current campaign average (EU9) result, 69% of advisors provided an explanation of sustainability preferences by reference to all financial products available on the market (rather than limiting the explanation to financial products which the advisor can recommend). This result is probably better than expected – for these appointments there is no apparent influence at this step of the sustainability assessment.

According to the current campaign average (EU9) result, the feedback from mystery shoppers is that 91% of advisors provided a neutral and unbiased explanation of sustainability preferences. However, we query the

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[30] Recital 6, Commission Delegated Regulation, Art 52(3), MiFID II Delegated Regulation
[31] Paragraph 16, ESMA Guidelines
[32] This is problematic as the regulatory definition of sustainability preferences is complicated and involves concepts (taxonomy, sustainable investment, principal adverse impacts etc.) which will be new to many clients. In addition, clients will have varying levels of financial literacy and knowledge and interest in sustainability issues.
[33] See 2DII, 2023, Assessing client sustainability preferences … lost in the maze?
[34] The formatting of the question and answer here meant that it was not possible to fully consolidate the results for Italy, Netherlands, Spain and Sweden with the previous results for Ireland, Greece, Estonia, Romania, Germany and Denmark. This figure shows the results that we were able to consolidate, but additional results for Italy, Netherlands and Spain support the view that the explanation of sustainability preferences by advisors generally does not cover many key concepts.

validity of these results and whether the mystery shopper is in fact able to perceive any bias on the part of the advisor. For example, this result of 91% of advisors providing a neutral and unbiased result is inconsistent with the previous result that only 69% of advisors provided an explanation of sustainability preferences by reference to all financial products available on the market. In terms of the qualitative feedback received, this includes both appointments where the mystery shopper felt the explanation was neutral and unbiased and where there may have been a perception of bias. However, this qualitative feedback does not enable any identification of broad trends.

Identification of client sustainability preferences

Investment firms must obtain from clients the *necessary information* to understand their position and be able to determine that a financial product recommendation meets the investment objectives of the client, including the client's risk tolerance and any sustainability preferences.[35] Available guidance specifies that this information should be 'sufficiently granular to allow for a matching of the client's sustainability preferences with the sustainability-related features of financial instruments,' should articulate whether the preference is for one or more category of sustainability preference and should include the minimum proportion or quantitative and qualitative criteria where relevant. Furthermore, investment firms should 'adopt a neutral and unbiased approach as to not influence clients' answers.'[36] [37]

Research Question 3A: How are advisors assessing the minimum proportion to be invested in accordance with sustainability preferences?

Assessing the minimum proportion to invest in accordance with sustainability preferences is a key area where clients can be influenced. According to the regulatory definition, the minimum proportion can be anywhere between 0% and 100%. However, at the open hearing on the revised ESMA Guidelines[38] many financial institutions raised a concern that availability of financial products with a high minimum proportion invested in accordance with a sustainability preference was limited (therefore if clients expressed a desire for a high minimum proportion this could not be met). This raises the question as to how investment firms are gathering information about the minimum proportion to be invested in accordance with a sustainability preference and if there is a risk that market practice is influencing clients to articulate a low minimum proportion.

According to the current campaign average (EU9) result, the advisor did not assess the minimum proportion to be invested in accordance with sustainability preferences in 49% of appointments. Meanwhile the advisor presented ranges for assessing the minimum proportion to be invested in accordance with sustainability preferences in 24% of cases. One limitation of this mystery shopping campaign is that it was not possible to have access to these materials to assess if these ranges were likely to influence how clients articulate the minimum proportion.

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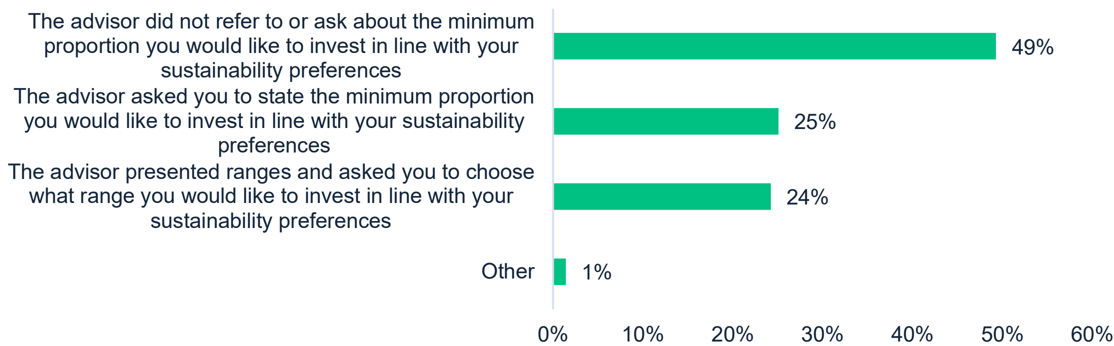
[35] Art 54(2) and Art 54(5), MiFID II Delegated Regulation
[36] Paragraph 26, ESMA Guidelines
[37] Note that Paragraph 27, ESMA Guidelines sets out a suggested approach to this process.
[38] Held on 18 March 2022 from 10.00 to 12.00 (CET) https://www.esma.europa.eu/press-news/hearings/open-hearing-consultation-guidelines-certain-aspects-mifid-ii-suitability

Figure 15: Assessment of the minimum proportion to be invested in accordance with sustainability preferences (current campaign average (EU9) results)

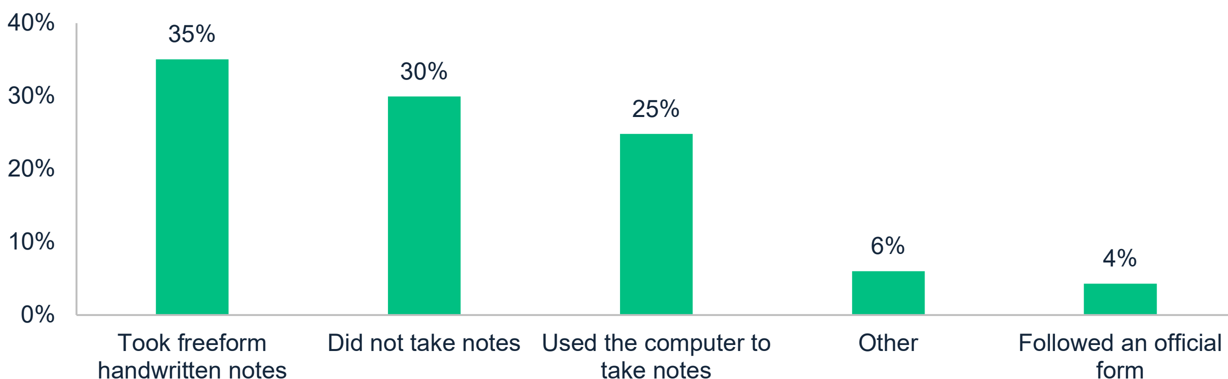


Research Question 3B: What tools do advisors use to record information?

Considering our concerns about the level of regulatory oversight which will be afforded these regulatory changes[39], the record keeping obligation is paramount for assessing whether a financial advisor has complied with regulatory obligations.

According to the current campaign average (EU9) result, in 30% of appointments the advisor did not take notes and 35% of appointments the advisor took free form notes. One limitation of this mystery shopping campaign is that it was not possible to access any of these notes to assess their adequacy. However these results raise significant questions as to whether record keeping practice of advisors is sufficient.

Figure 16: Advisor tools to record information (current campaign average(EU9) result)



Financial product recommendation

Research Question 4A: Where advisors are unable to recommend a financial product as matching client sustainability preferences, are advisors transparent that suitable financial products might be available elsewhere on the market and do they influence clients?

Investment firms must ensure that any financial product which is recommended meets the investment objective of the client, including the client's risk tolerance and any sustainability preferences.[40] Where the investment firm is not able to recommend a financial product which meets the client's sustainability preferences, the client can decide to adapt its sustainability preferences in which case the investment firm shall keep records of this client decision and the reasons for that decision.[41]

[39] See 2DII, 2022, *Integrating client preferences for sustainable investment into financial institution legal duties … still a way to go*
[40] Art 54(2) MiFID II Delegated Regulation (which also specifies further aspects which a financial product recommendation must satisfy).
[41] Art 54(10) MiFID II Delegated Regulation

In view of this permitted mechanism for clients to adapt their sustainability preferences as originally expressed, the financial product recommendation is a further area where investment firms can influence clients. Clients can be influenced to adapt their sustainability preferences to the product range of the investment firm where they are not made aware that suitable financial products might be available elsewhere on the market as part of the process of offering the client the opportunity to amend its sustainability preferences.[42]

We do not consider that we got usable results in relation to advisors being transparent that suitable financial products might be available elsewhere on the market. According to the current campaign average (EU9) result, most mystery shoppers (74%) received a financial product recommendation (which is a surprising result given that the mystery shopper profiles were designed with sustainability preferences which the product offer of many financial institutions would not be able to satisfy). Where an advisor was not able to provide a financial product recommendation and gave the client the option to adapt its sustainability preferences, according to the current campaign average (EU9) result, in only 6% of appointments did the advisor communicate that suitable financial products might be available elsewhere on the market. Although 56% of mystery shoppers did not feel under pressure from the advisor to choose a product these results raises significant concerns about whether advisors are genuinely trying to satisfy client sustainability preferences and reveals that even if clients are not under pressure to choose a product, they are still subject to information asymmetries.

Research Question 4B: What tools do advisors use to record whether clients adapt sustainability preferences?

As before, considering our concerns about the level of regulatory oversight which will be afforded these regulatory changes[43], the record keeping obligation is paramount for assessing whether a financial advisor has complied with regulatory obligations. With the anecdotal view that there is likely to be a large mismatch between client sustainability preferences and available financial products, there is a question as to whether investment firms are taking adequate records to provide the necessary data as to what needs to take place in terms of sustainable financial product innovation.

According to the current campaign average (EU9) result, mystery shoppers provided feedback that the advisor did not take notes in 22% of appointments at this step. However, this result needs to be interpreted in light of the surprisingly high number of appointments where the mystery shopper received a financial product recommendation (in which case the mystery shopper would not be given the opportunity to adapt its sustainability preferences). As before, one limitation of this mystery shopping campaign is that it was not possible to have access to any of these notes to assess their adequacy. Although difficult to interpret, these results raise significant questions as to whether record keeping practice of advisors is sufficient.

Testing the limits of the regulatory definition of sustainability preferences

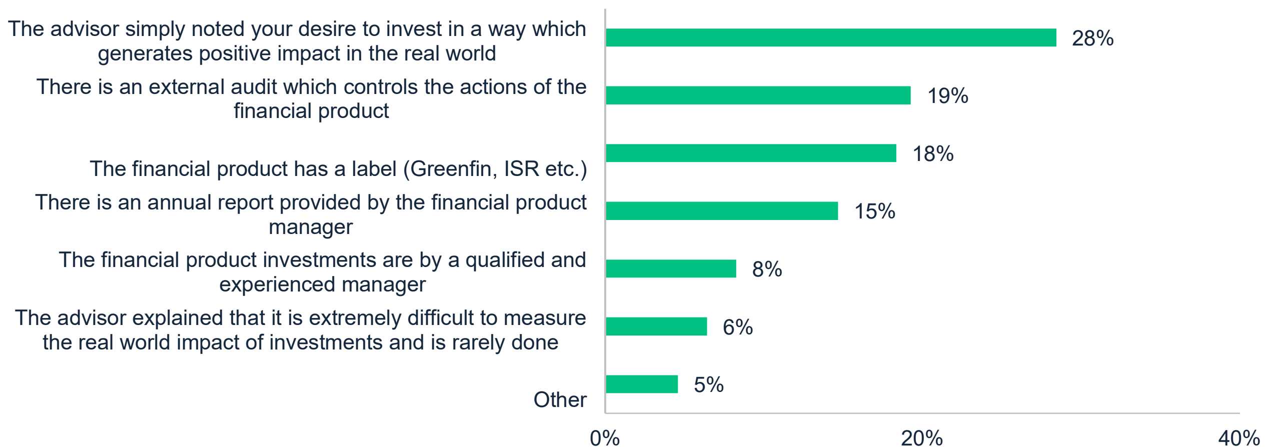
Research Question 5A: How do advisors explain or demonstrate the impact of relevant financial products?

There is significant uncertainty in relation to how impact-oriented financial products are accommodated (if at all) in the definition of sustainability preferences. And when it comes to being able to prove/demonstrate the impact or any financial product or investment, evaluation requires a complex counterfactual analysis as impact is the additional effect on the world through an action.[44] Even if well-established and commonly used within public policy and philanthropy, those counterfactual impact evaluation techniques are still largely un-used in

[42] Indeed, without this requirement, there is hardly any incentive for investment firms to adapt the product range because clients can simply be directed towards the products in the range and be influenced to adapt their sustainability preferences.
[43] See 2DII, 2022, *Integrating client preferences for sustainable investment into financial institution legal duties … still a way to go*
[44] Beyond presenting the actions that have been deployed to achieve impact, demonstrating investor impact implies providing evidence of additional outcomes in the real economy. The highest level of proof of additionality cannot be achieved without running experimental or quasi-experimental scientific methods that compare actual achievements to a counterfactual scenario where the investment would not have been made.

the finance sector. This means that much of the thinking and associated marketing communications as to the environmental impact of financial products and financial institutions is not backed up by evidence or substantiated.[45] In this context, there is a question as to how are advisors communicating on the environmental impact of financial products to impact-oriented clients during the suitability assessment?

Figure 17: Advisor explanations of demonstration of the impact of any investment (current campaign average (EU9) result)



We are of the opinion that these explanations do not approximate to genuine and informed thinking and understanding about investor impact and do not demonstrate the impact of a financial product. In addition they reveal that the general understanding by advisors is not evolving and improving - there is a huge gap between the discourse which advisors *should be having* about investor impact and the discourse which advisors *actually are having* about investor impact.[46]

Research Question 5B: How do advisors accommodate clients who are interested in impact-oriented financial products?

When it comes to accommodating an impact focus in the financial product recommendation, generally this is not achieved.[47] The qualitative results here generally reveal that advisors have a lack of knowledge on investor impact. Many advisors explain that a given financial product is impactful without clearly articulating or explaining the concept or providing a technically accurate justification (see above). This is largely the same as what we have observed in previous mystery shopping campaigns.

Advisor sustainable finance knowledge

Research Question 6: Do advisors have a good understanding of sustainable finance concepts?

Investment firms must ensure and demonstrate to competent authorities on request that anybody giving investment advice has the necessary knowledge and competence to fulfil the obligations[48] and be able to

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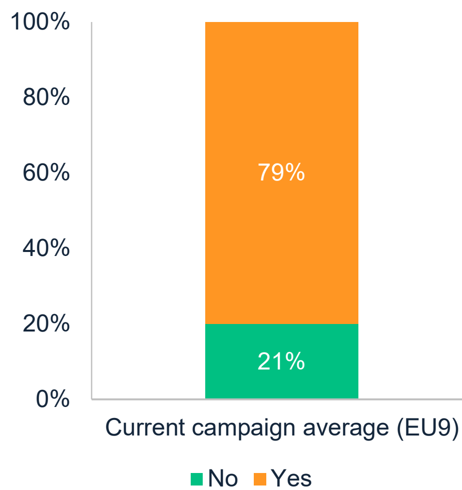
[45] Please see further analysis of this problem in 2DII, 2021*, Sustainable finance and market integrity: promise only what you can deliver. A regulatory perspective on environmental impact claims associated with sustainable retail funds in France* and 2DII, 2022, *Fighting greenwashing … what do we really need?*
[46] Please see 2DII's *Questionnaire for assessing client sustainability preferences and motivations* and accompanying *Guidance for assessing client sustainability preferences and motivations* (forthcoming) for what we consider to be good practice in this area.
[47] Note the comment above that most mystery shoppers (74% according to the current campaign average (EU9) result) received a financial product recommendation. This is a surprising result given that the mystery shopper profiles were designed with sustainability preferences which the product offer of many financial institutions would not be able to satisfy – which is especially the case in relation to impact-oriented clients.
[48] Art 25(1), MiFID II

demonstrate that they have in place 'adequate policies and procedures to ensure that they understand the nature features, including costs and risks of investment services and financial instruments selected for their clients, including any sustainability factors.'[49] Our previous mystery shopping campaign reveals that only a minority of financial advisors appeared to be knowledgeable about sustainable finance concepts. Therefore, there is a question whether there has been the necessary increase in financial advisor knowledge and expertise on sustainable finance with the advent of the new regulatory changes coming into force.
Our commentary above shows a generally poor level regulatory compliance generally from which one might ordinarily infer a poor level of advisor sustainable finance knowledge. Despite this, many mystery shoppers did not articulate concerns about the level of advisor sustainable finance knowledge (although the qualitative results received show a high variability in terms of client experience).

Figure 18: Client perception of whether the advisor had a good understanding of sustainable finance concepts



If mystery shoppers did not identify concerns about advisor level of sustainable finance knowledge, it may be that an advisor's professional approach, experience and confidence in relation to other more established areas of financial advice can mask a lack of specific sustainable finance knowledge so that it is not apparent to clients. This result is especially concerning because (as referred to above) advisors are key for clients to learn more about sustainable finance options (and therefore have a central role in reorienting finance towards a sustainable economy). But at the moment advisors are not able to perform this function and at the same time retail clients are not sufficiently aware of sustainable finance options to push for these themselves (meaning that neither the supply from investment firms nor the demand from retail clients is pushing towards more sustainable financial products).

[49] Art 54(9), MiFID II Delegated Regulation. In addition, Paragraph 16 ESMA Guidelines states: 'Staff should also have the necessary knowledge and competence with regard to the criteria of the sustainability preferences […] and be able to explain to clients the different aspects in non-technical terms. To that effect, firms should give staff appropriate training.'

Chapter 4

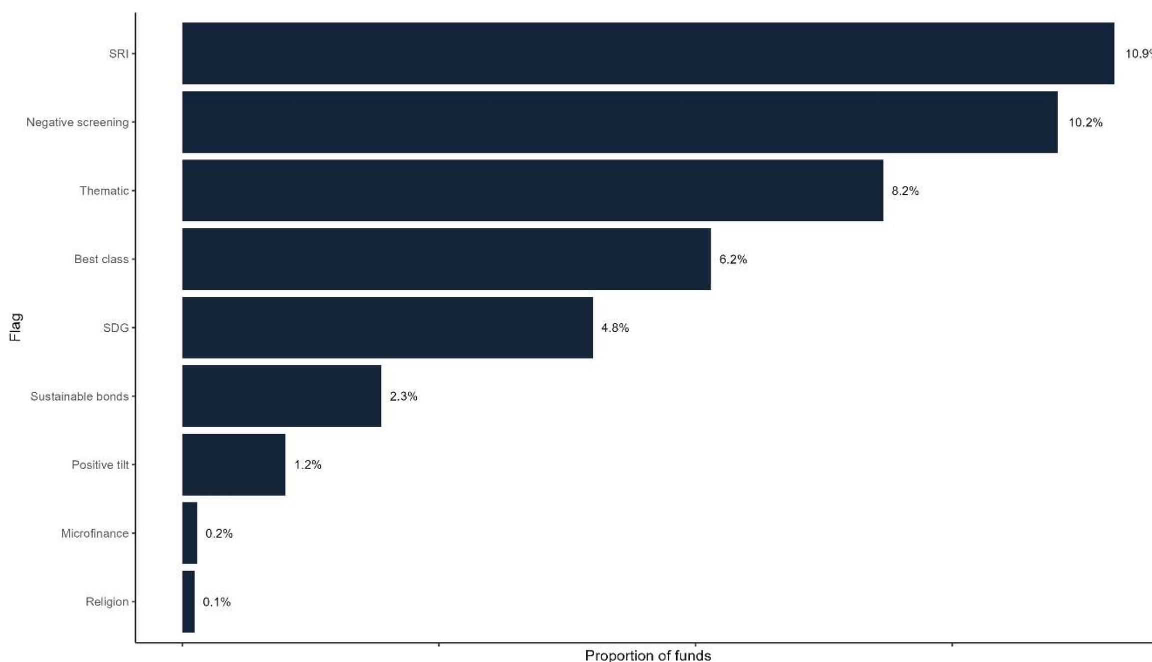
Blocker #2: an inconsistent market supply

In this section, we use data from the data provider Lipper Refinitiv. Indeed, since early 2022, Lipper provides information on the sustainability orientation of covered funds.

An overly concentrated supply

Based on the Lipper database, 3478 funds were available to retail clients in Belgium in May 2023, with 29.1 % of funds accomplishing at least one of the responsible investment flags. As shown in the figure 19, the most common flags in the market were SRI[50] (10.9 %) and negative screening[51] (10.2 %).

Figure 19: Proportion of funds with Responsible Investment flags in Belgium



Source. Lipper (2023)

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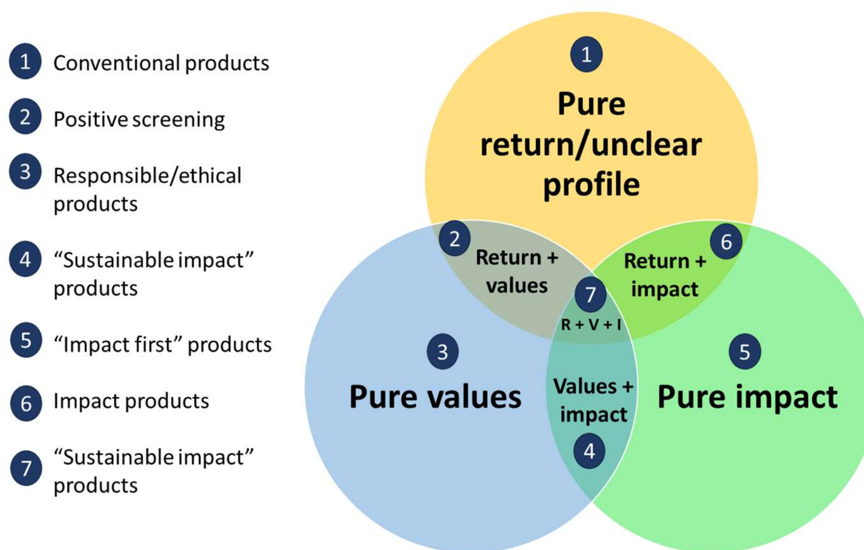
[50] SRI identifies funds that include social impact in their overall screening process where investments must meet defined social criteria. SRI funds are managed towards a described impact or responsible outcome, while ESG funds are managed with a focus on the financial returns of the fund (Lipper, 2023).

[51] The negative screening flag pretends to avoid companies with lower performance in the ESG characteristics. In this case, the flag includes companies that support pornography, alcohol or drugs, GMO, tobacco, fossil energy, nuclear, weapons, among other (Lipper, 2023).

Deprived sustainability profiles

The flags previously identified allow us to allocate funds to investor sustainability profiles (see table 1). The figure 20 shows the most suitable financial products for each investor sustainability profile defined in chapter 2 while table 4 displays the criteria used to match funds from the Lipper database with those profiles.

Figure 20: most suitable products per investor sustainability profile



Note: circles are used for visual display only and do not represent the relative sizes of the offering and consequently could be misleading. For instance, "pure impact" products are below-market products with no value-based screening process. In practice, such products are very rare.

For each investor profile, we matched specific funds (i.e., the most suitable for that profile) and additional funds (i.e., also suitable but more adapted to other profiles). Therefore, the sum of specific funds equals 100% of the retail market while the sum of specific and additional funds exceeds 100% (due to double counting for shared categories).

To match supply and demand, we had to overcome several limitations of the Lipper database. First, the impact investing categories are discussable: i) there is no selection criterion based on the intention of the fund to deliver impact, ii) we consider that sustainability bonds should not be included in the impact investing category and iii) no distinction is made between SDG-alignment and SDG-engagement funds. Second, there is no mention of the return objectives of the funds. Consequently, we cannot distinguish market-return funds from below-market funds. Finally, there is also insufficient granularity in the asset class documentation as there is no difference made between public and private equity or between public and private debt. It is unfortunate as some strategies (e.g., thematic screening) are more prone to deliver impact when applied in private markets than in public markets.

Therefore, we had to make simplifying assumptions: i) we consider that SDG funds are not doing active engagement in a way that would make them suitable for impact-motivated investors and that they target market returns and ii) all microfinance funds target below-market returns.

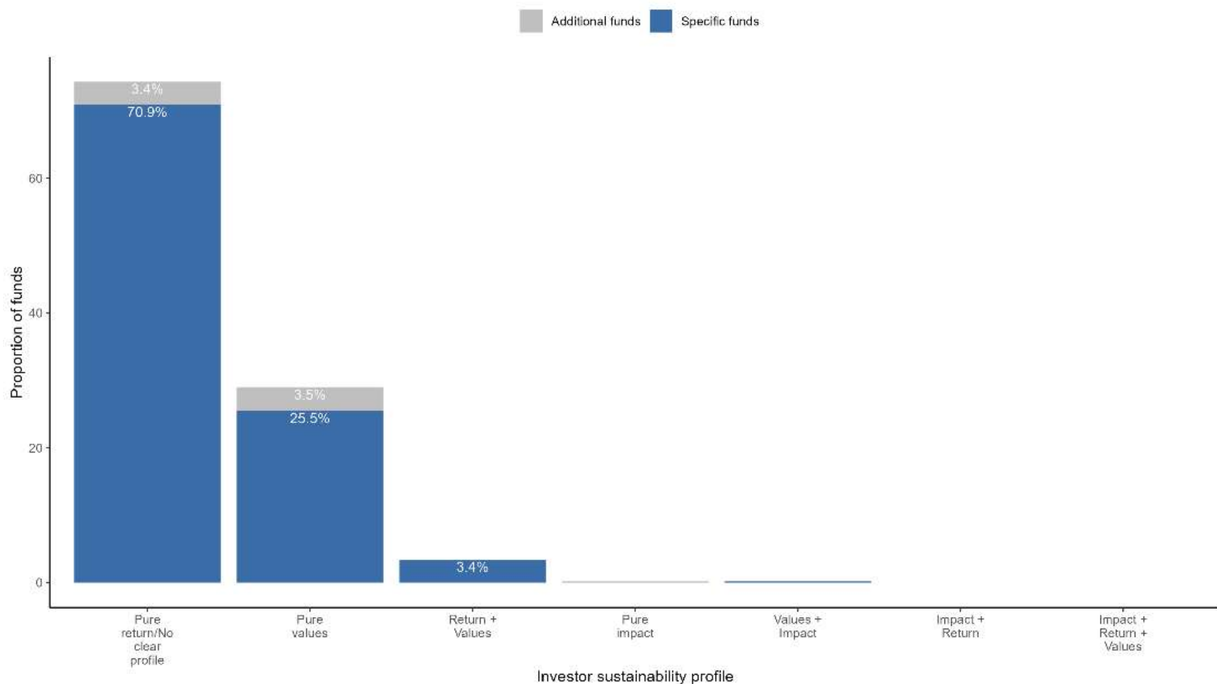
Due to those assumptions, three profiles ("pure impact", "impact and return" and "impact and return and values") are left with no observable specific product due to the lack of details in the database regarding targeted returns and the use of certain sustainable strategies (engagement) by covered funds.

Table 3: matching table for allocating funds to investor sustainability profiles

#	Investor sustainability profiles	Specific products	Description of the specific products	Examples of specific products	Lipper flags (at least one)	Lipper flags (restriction)	Additional products
1	Pure return/No clear profile	Conventional products	Products with no sustainability feature	Conventional equity or bond funds	None	No sustainability flag	Categories 2/6/7
2	Return + Values	Positive screening products	Products with a value-based screening that potentially enhances return	Best-in-class equity or bond funds / ESG integration equity or bond funds	Positive screening – tilt / Positive screening – Best-in-class	No other sustainability flag	Category 7
3	Pure Values	Responsible/ethical products	Products with a value-based screening	SRI equity or bond funds / Green or social thematic equity funds / Green or social bond funds / SDG-alignment funds	Exclusion/Thematic/SRI/Religion/ sustainability bonds/SDG	No Microfinance	Categories 2/4/7
4	Values + Impact	"Sustainable Impact" products	Below-market impact investing products with a value-based screening	Below-market thematic impact private equity or private debt funds / Below-market SDG-engagement equity funds / Below-market microfinance funds	Microfinance	None	Category 7
5	Pure Impact	"Impact first" products	Below-market impact investing products with no value-based screening	Below-market engagement funds	NA	NA	Categories 4/6/7
6	Impact + Return	Impact products	Market-return impact investing products with no value-based screening	Market-return engagement funds	NA	NA	Category 7
7	Impact + Return + Values	"Sustainable impact first" products	Market-return Impact investing products with a value-based screening	Market-return thematic impact investing private equity or private debt funds / Market-return SDG-engagement equity funds	NA	NA	None

Using the matching table, we could observe that a vast majority of funds still have no sustainability feature (71%) and therefore are suitable only for investors with no strong appetite for sustainability (i.e., investors interested only in maximizing returns or with no clear profile). Oppositely, all profiles interested in impact are matched with zero or almost zero fund.

Figure 21: proportion of funds suitable for each investor sustainability profile (Belgium)



Source. Lipper (2023)

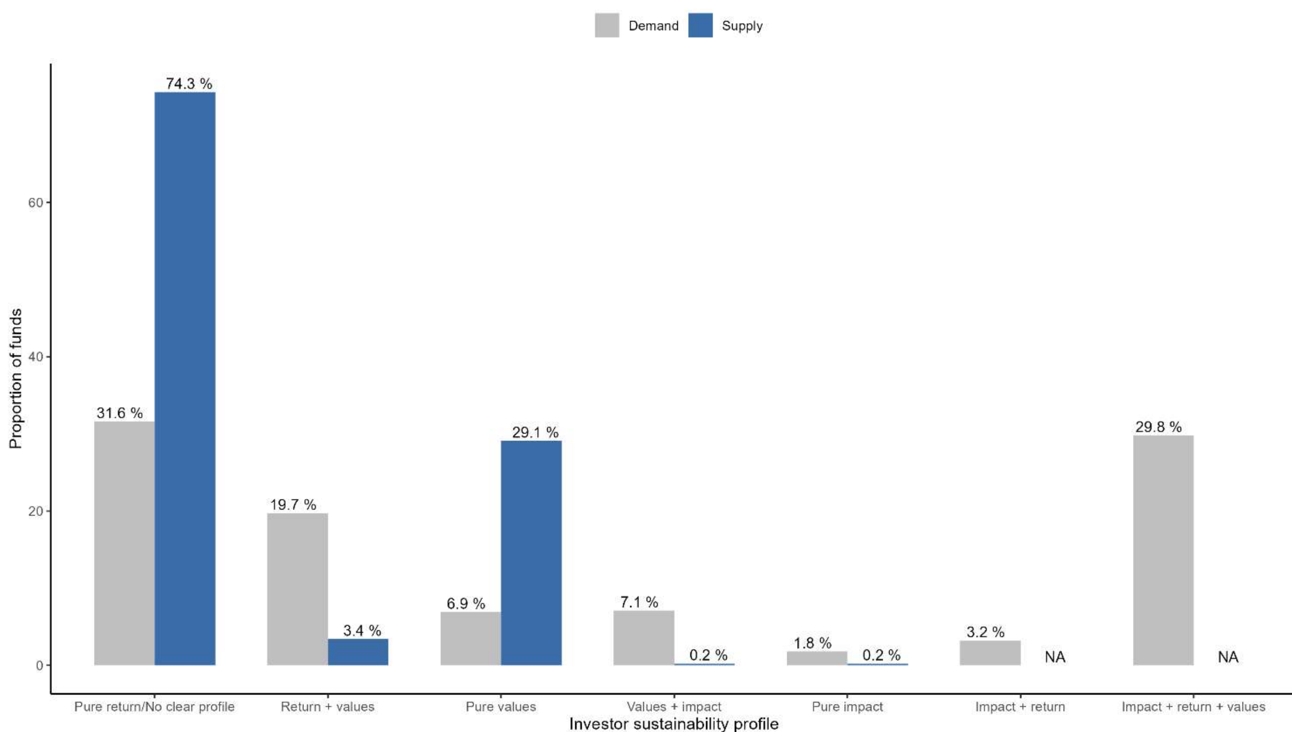
A market mismatch

Finally, we could compare the proportions of funds with various sustainability features and the proportions of investor sustainability profiles. It appears that the offering of funds by asset management firms operating in Belgium (like in other European countries) does not match retail clients' preferences.

Remarkable results can be inferred from figure 22:

- Despite a clear demand for sustainable financial products, financial institutions are still concentrating their products for investors with no clear profile or seeking pure return. There are 74% of funds that are suitable for investors not interested in any sustainability feature while the (two) related profiles represent a total of 31.6% of all retail investors,
- There is also an excess supply of funds for investors only interested in aligning their savings with their values (the "pure values" profile),
- Oppositely, 30% of retail investors expect their investments to complete the full list of motivations (impact generation, value alignment and return maximization) while we could not identify any fund offering these characteristics,
- In general, all profiles interested into impact are massively undersupplied.

Figure 22: comparing demand and supply for various investor sustainability profiles (Belgium)



Source. Lipper (2023)

Chapter 5

Discussion and recommendations

In this chapter, we present a series of recommendations to improve the European/Belgian retail market for sustainable financial products and, therefore, contribute to narrow the attitude-behaviour gap previously identified.

Our recommendations aim to tackle the issues highlighted in Chapter 3 and 4 that currently inhibit retail investors channeling investment towards suitable sustainable financial products (i.e., a deficient advisory process and an inconsistent market supply).

Tackle persisting deficiencies in the advisory process

Level of compliance with suitability assessment requirements

Discussion

The results of our mystery shopping campaign reveal a low level of compliance with the new regulatory provisions requiring a mandatory assessment of client sustainability preferences during the suitability assessment. According to the current campaign average (EU9) result, in only 43% of appointments did the advisor bring up the subject of sustainability preferences without any prompting by the client.[52] The results also reveal significant variability in the level of regulatory compliance across different countries (ranging from 13% to 74%). This means that the variability in advisor behaviour observed in our previous mystery shopping campaigns has continued despite the regulatory changes in the delegated regulation and market practice has not yet been harmonised.

The remaining results to assess regulatory compliance need to be interpreted in the context of this low level of regulatory compliance generally. However, these results reveal cause for concern in relation to key aspects of the procedure for assessing sustainability preferences articulated in the delegated regulation.

For the explanation of sustainability preferences,[53] the current campaign average (EU9) result is that advisors provide an explanation of sustainability preferences in 83% of appointments. However, the broad observation that advisors often link the explanation of sustainability preferences to environmental or social considerations but any explanation of key concepts such as principal adverse impacts etc. was not adequate continues to be apparent. This means that clients cannot be regarded as sufficiently empowered to take informed decisions (unless they have done their own research outside of the appointment).

The results also show that few advisors are assessing the minimum proportion of investments which should be invested in accordance with sustainability preferences.[54] According to the current campaign average (EU9) result, the advisor did not assess the minimum proportion to be invested in accordance with sustainability preferences in 49% of appointments. In addition, the results raise questions as to whether record keeping by

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[52] Mystery shoppers were instructed that where it was absolutely clear that an advisor was not going to raise the subject of sustainability preferences, then the mystery shoppers were instructed to raise the subject themselves.
[53] Required by Recital 6, Commission Delegated Regulation and as referred to in Paragraph 16, ESMA Guidelines
[54] Assessing the minimum proportion is necessary for Category A and Category B of sustainability preferences.

advisors is adequate.[55] While seemingly innocuous, these results raise concerns about whether the regulatory changes are effective in contributing to the desired policy objective.

In theory, the procedure articulated in the regulatory changes should create an incentive structure so that over time the financial product offering changes to reflect increasing client preferences for sustainable investment. However, if the minimum proportion to be invested in accordance with sustainability preferences (i.e. a key constituent of the original articulation of client sustainability preferences) is not being assessed, and the record keeping at both this step of the suitability assessment and the step when the client is given the opportunity to adapt its sustainability preferences is not adequate, then there is no evidence as to the extent to which clients are adapting their sustainability preferences. And in turn, where there is no such evidence, it is unlikely that there will be any incentive structure for investment firms to change the profile of their financial product offering.[56]

Recommendation

We have expressed elsewhere[57] our concerns about the level of regulatory oversight afforded to the suitability assessment. The general obligation of competent authorities in respect of supervision[58] is very broadly drafted. There are no explicit provisions which relate to regulatory oversight of the suitability assessment and any regulatory oversight which does occur will be largely dependent on record keeping obligations which apply to financial institutions.

We consider that the planned route to integrating assessment of client preferences for sustainable investment into the suitability assessment relies on a level of regulatory oversight which may not exist. Addressing this oversight gap at national level is critical to create an enabling environment which is compatible with integrating sustainability considerations. And greater coordination at EU level is necessary to work towards harmonisation of approaches across the EU.

In this context and in view of what our results reveal about current market behaviour in terms of regulatory compliance, there is a clear need for a coordinated review at the earliest opportunity.[59] This must be framed in terms of both assessing the level of regulatory compliance and whether the regulatory framework is designed to effectively contribute towards the policy objective.

Recommendation 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

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[55] Both in relation to the initial identification of sustainability preferences and whether the client decides to adapt its sustainability preference when the advisor is unable to recommend a financial product which matches sustainability preferences as originally expressed.
[56] Without this incentive structure, the whole theory of change for EU sustainable finance policy (in relation to ensuring financial institutions take account of increasing client preferences for sustainable investment meaning that these client preferences are leveraged in support of reorienting finance towards sustainable investment) is critically undermined.
[57] See 2DII, 2022, *Integrating client preferences for sustainable investment … still a way to go* and 2DII, 2022, *Fighting greenwashing … what do we really need?*
[58] Article 22 Directive 2014/65
[59] The peer review of competent authorities (as referred to in Art 30, Regulation (EU) No 1095/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Securities and Markets Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/77/EC) appears to be grant ESMA the authority to conduct reviews which can include an assessment of ‘the effectiveness and the degree of convergence reached in the application of Union law and in supervisory practice’ and ‘the extent to which the supervisory practice achieves the objectives set out in Union law.’

Limits of the regulatory definition of sustainability preferences

Discussion

The definition of sustainability preferences is the *bridge* between the sustainable finance silo of regulatory provisions[60] and the retail investor silo of regulatory provisions.[61] And the three categories of financial product included in this definition is the lens through which the financial regulatory framework looks at the myriad of factors, objectives and motivations which retail investors have for the sustainability aspects of their investments.

The results of our mystery shopping campaign reveal significant concerns as to whether the definition of sustainability preferences provides a sound basis for a comprehensive and holistic assessment of client preferences for sustainability investment. Indeed we have a fear that approaching the topic of client preferences for sustainable investment through the lens of the definition of sustainability preferences serves only to make an already complicated task even more so.

In relation to impact-oriented financial products, the categorisation of financial products in the definition of sustainability preferences does not work – even from a theoretical or conceptual point of view. The definition does not accommodate impact-oriented financial products – therefore assessing sustainability preferences will not reveal if a client is impact-oriented and cannot result in recommending an impact-oriented financial product.

In aggregate, the results of our mystery shopping campaign create doubt that an adherence to the regulatory definition of sustainability preferences to assess client preferences for sustainable investment may not work in either the client or the advisor interest. Adhering to the concept of sustainability preferences effectively backs the advisor into speaking a different language to clients – and this then creates a risk of mis selling and significantly undermines the procedure articulated for the assessment of sustainability preferences during the suitability assessment.

Recommendation

The results of our mystery shopping campaign provide further evidence to support our recommendation in previous papers[62] that the definition of sustainability preferences must be clarified and improved. And clarifying the concept of sustainability preferences will also require an improved approach to sustainable product categorisation than currently described in the SFDR. Absent an improved method of sustainable product categorisation, much of the regulatory architecture to support the improved concept of sustainability preferences will be missing.

Other jurisdictions[63] are progressing with an approach to sustainable product categorisation which is more reflective of both (1) the myriad of factors, objectives and motivations which retail investors have for the sustainability aspects of their investments and (2) the tangible product features which identify and differentiate different categories of financial product. The net result is that different categories of financial products are more clearly delineated from each other and matching client preferences for sustainable investment (including the 50% currently ignored impact-oriented clients) to financial products is more accurate.

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[60] Which may broadly be understood to be the regulation implemented as a consequence of the Commission's 2018 *Action Plan on Financing Sustainable Growth* (e.g. Taxonomy Regulation, SFDR etc.).
[61] Which may broadly be understood as the regulation which governs the framework for retail investment (e.g. MiFID II, IDD etc.)
[62] 2DII, 2022, *Integrating client preferences for sustainable investment … still a way to go*, 2DII, 2022, *Fighting greenwashing … what do we really need?* 2DII, 2022, *Jumping the barriers to sustainable retail investment in France*
[63] In the UK, the FCA's most recent proposals for sustainable investment labels proposes three categories: Sustainable Focus, Sustainable Improvers and Sustainable Impact (see FCA, 2022, CP22/20 *Sustainability Disclosure Requirements (SDR) and investment labels).*

The Commission is currently carrying out a comprehensive assessment of the SFDR[64] and anecdotal evidence points to a public consultation before the end of 2023 (although the Commission has not announced anything formal in this regard). We consider that this comprehensive assessment of the SFDR must improve the method of categorisation of sustainable financial products than is currently apparent (e.g. Art 6, 8 and 9) and that there must be consequent amendment to the definition of sustainability preferences to ensure consistency.

Recommendation 2: The ongoing comprehensive assessment of the SFDR must be used to clarify sustainable financial product categorisation and to integrate the concept of "investor impact" which should be followed by consequent amendments to the definition of sustainability preferences.

Advisor sustainable finance knowledge

Discussion

In a previous paper,[65] we stated our expectation that the application of the Commission Delegated Regulation will force financial advisors to increase their sustainable finance expertise. However, the results of our mystery shopping campaign reveal that is questionable whether the necessary step change has taken place. Although mystery shoppers did not reveal any concerns about the level of sustainable finance knowledge of the advisor, the low levels of regulatory compliance generally (and low levels of compliance with constituent parts of regulatory procedure) and generally poor level of knowledge by advisors in relation to accommodating impact-oriented investment opportunities reveal cause for concern.

Recommendation

The message from the Commission and ESMA is clear – investment firms must now ensure that anybody giving investment advice has the necessary knowledge and competence and have in place adequate policies to ensure advisors understand key features (including sustainability factors) of financial products. In addition, the ESMA Guidelines recommend that investment firms should give staff appropriate training. However, while the regulatory framework establishes a knowledge requirement and training obligation there are no further details as to what should be included therein.[66]

The *Retail Investment Strategy*[67] (announced in May 2023) includes proposed measures to strengthen and harmonise requirements on knowledge and competence of advisors. Specific requirements which are currently stipulated in ESMA Guidelines will be promoted to legal requirements and an additional element regarding sustainable investments will be introduced.[68] Compliance with these requirements will need to be proven by obtaining a certificate and a limited requirement for ongoing professional training will be introduced.

The results of our mystery shopping campaign demonstrate that knowledge and competence in relation to sustainable finance differs widely and that the average level of knowledge and competence of financial advisors is not sufficient to comply with the new requirements for assessment of sustainability preferences. In this context defining precise and comprehensive requirements around knowledge and competence for the *additional element regarding sustainable investment* (as referred to above) is critical to articulate the minimum level of knowledge to ensure that financial advisors have sufficient expertise on sustainable finance to carry out a comprehensive suitability assessment.

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[64] https://finance.ec.europa.eu/sustainable-finance/disclosures/sustainability-related-disclosure-financial-services-sector_en
[65] 2DII, 2022, *Please Don't Let Them Be Misunderstood!*
[66] And the principles-based guidance in the ESMA's *Guidelines for the assessment of knowledge and competence* and *Guidelines on certain aspects of the MiFID II suitability requirements* do not provide further assistance.
[67] https://finance.ec.europa.eu/publications/retail-investment-strategy_en
[68] https://ec.europa.eu/commission/presscorner/detail/en/qanda_23_2869

Recommendation 3: Use the upcoming measures to improve knowledge and competence of financial advisors announced under the Retail Investment Strategy to define precise and comprehensive requirements around sustainable finance knowledge and competence.

Densify and reorient market supply

Variety of retail sustainable financial products

Discussion

Our work proves that the potential of various retail sustainable products is most probably far from being exhausted. When confronted to the demand, non-sustainable funds are still too numerous while the large heterogeneity in preferences and motivations is not perfectly addressed.

In a previous study[69], we noticed that there was no strong variation in adhesion across sustainable techniques (i.e., all of them could find an audience) while there are large variations in actual assets under management relying on those techniques (i.e., the supply is overconcentrated around certain techniques).

The supply-demand mismatch is especially massive for impact-oriented products. Overall, **the supply of sustainable financial products does not match demand**. Clearly the financial industry must innovate on multiple fronts to find ways to serve the diversity of client profiles and variability in client sustainability preferences.

Despite continual improvement, the supply of sustainable financial products for retail clients is still insufficiently wide and diversified. By way of example, the proportion of mutual funds with no sustainability features far exceeds the proportion of clients with no sustainability preferences (or wider sustainability motivations). And when funds do have sustainability features, these are too often restricted to (negative, positive or thematic) screening of the investment universe.

But these screening strategies are not suitable for impact-oriented clients. As a result, impact-oriented clients currently suffer the most from the inadequate supply. These screening strategies consequently need to be enhanced or complemented with other sustainable financial strategies that are known to have a stronger impact potential (like engagement, financing of undersupplied segments, flexible financing, provision of non-financial support).

In practice, it means that there is an insufficient supply of alternative investments to retail clients. The Lipper database we browsed to analyze the supply of retail sustainable funds did not allow us to differentiate between funds operating in public markets from those in private markets. This is unfortunate as there is a massive difference in impact potential between those two types of funds due to the possibility for the latter to action impact mechanisms that are inaccessible for public equity/debt funds.

The underrepresentation of individual investors within private market alternative funds is beyond doubt. Individual investors hold roughly 50% of the estimated $275 trillion to $295 trillion of global assets under management (AUM). Yet those same investors represent just 16% of AUM held by alternative investment funds[70] (see Figure). This vast, untapped market has become increasingly attractive to alternative asset managers. In Europe, it is even less. InvestEurope considers that only 7% of investments in private equity are made by individuals (mostly high-net-worth ones).[71]

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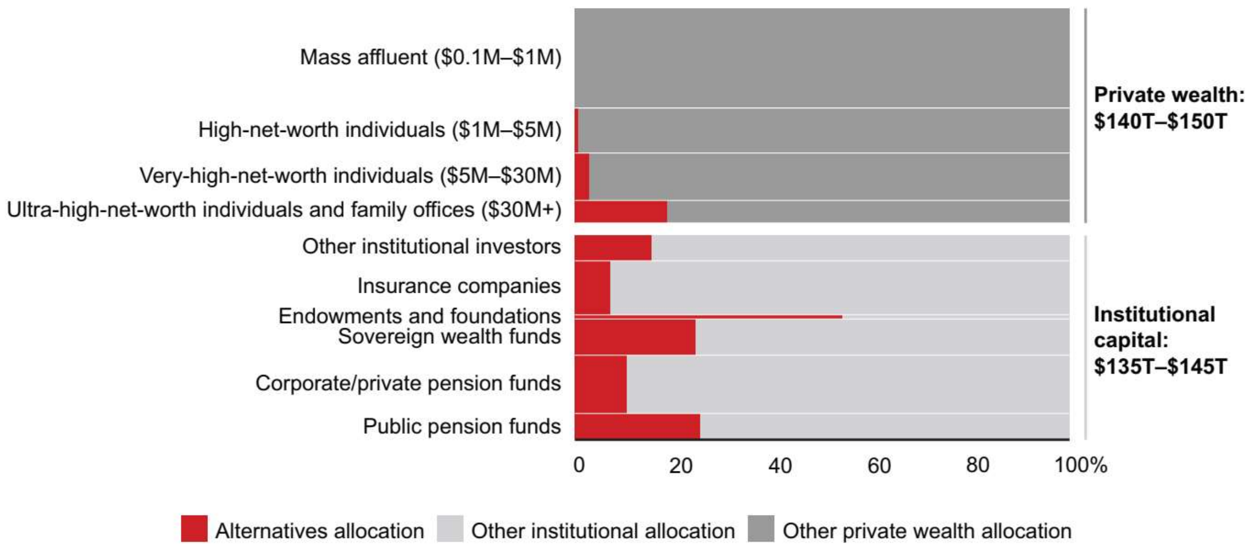
[69] 2DII, 2022, *Jumping the barriers to sustainable retail investment in France*.
[70] Bain & Co, 2023, *Global Private Equity Report*.
[71] InvestEurope, 2021, *Open to All: Private equity and retail investors*.

Figure 23: holding of alternative investments by type of investor



Source: Bain & Co (2023)

This opposes a clear interest by retail investors to get exposure to alternative investments that contribute to the financing of the green energy transition. In our survey, roughly 50% of European respondents declare to be interested into investing in the various “alternative” green assets proposed (private equity funds, infrastructure funds, real estate funds, crowdfunding investments, blockchain-based digital securities).

Traditionally, alternative investments are practically or regulatorily closed to individual investors (outside of the wealthiest segments) due to a combination of reasons:

- The low liquidity: alternatives are geared toward very large, patient investors willing to lock up their money for a period of years before they see any distributions,
- The high minimum ticket: alternatives also require a minimum investment of several hundred thousand euros that makes them out of reach for most individual investors,
- The complexity of the fee structure: alternatives often combine unconditional fixed management fees and conditional variable performance fees that are considered by regulators to be too complex to handle by non-qualified retail clients.

But recent market developments are contributing to democratizing alternative financial products. The effect of regulation on individual investors has been lately changing in two ways. First, rules defining who can and cannot invest in certain types of private funds have eased off somewhat in recent years. In 2020, for example, the US Securities and Exchange Commission broadened the definition of “accredited investor” beyond wealth-based criteria to include individuals with sufficient “knowledge and expertise” regarding an investment. In Europe, European long-term investment funds (ELTIFs) were introduced in 2015 to gather institutional and retail investors and allow them to invest in long-term assets (including infrastructure and debt instruments). This received considerable attention as ELTIFs could be marketed to retail investors based on an EEA-wide passport (similar to that under AIFMD). However this first version of the ELTIF had a modest success with only 57 products launched across Italy, France, Spain and Luxembourg. A revamped ELTIF framework was fully applicable from January 2023 which significantly improves the retail passport that allows AIFMD-authorised managers to market their funds to non-professional clients and has been seen as the missing piece of regulation that bridges the gap between the AIFMD (distribution of AIF to professional investors) and UCITS (distribution of non-AIF to retail investors). Second, general partners (GPs) have been innovating steadily to structure funds that are both compliant with regulations and open to larger segments of the individual investor market.

Regarding minimum ticket, emerging digital players like Moonfare, iCapital, and Opto Investments have built platforms—some aimed at financial advisers, some aimed directly at individuals—that offer low-cost access to a wide range of alternative products. Moonfare, for instance, is a fast-growing direct-to-consumer Germany-based platform that offers self-certified investors access to PE funds by pooling individual investments. Techniques like tokenization are also being explored by the industry to facilitate low-ticket access.[72]

Regarding the liquidity issue, large product managers have developed funds that offer investors intermittent liquidity. These are broadly similar to a mutual fund but limit the amount investors can withdraw in a given period. Withdrawal limits are triggered if, in aggregate, investors try to pull out more than a certain percentage of the fund's total assets, typically 5 per cent in a quarter. In that case, a maximum of 5 per cent is withdrawn and split among the investors who want cash. While a close-ended limited partnership has been the norm to access private equity in the past, another recent trend is the creation by a selection stock exchange of specific compartments to list closed-ended funds. In Europe, Euronext and the Luxembourg Stock Exchange offer access for professional investors to such regulated market, dedicated to closed-end funds. Globally there are over 200 private equity vehicles that trade on recognized financial exchange. Another promising solution comes from the development of secondary markets in alternatives. Digital players like Securitize and Moonfare are already probing this opportunity with new platforms creating "walled" mechanisms for secondary trading. Moonfare runs a formal process twice a year that gives retail investors the chance to trade ownership stakes in alternative asset funds. Finally, firms like KKR and Hamilton Lane have launched tokenized fund structures that provide liquidity mechanisms for individuals.[73]

The net result of rule changes and product innovation is that a growing number of individuals across regions are gaining access to more types of alternative investments. But the road is still long to make high-impact alternative financial products accessible for the retail segment.

Recommendation

We advocate for asset management firms to open to retail investors high impact potential alternative products that are currently reserved to qualified/institutional investors:

- Sustainable private equity funds, private debt funds, real estate funds or infrastructure funds;
- Impact investing funds (that intend to generate impact, use impact-oriented strategies and measure the fund's impact).

We also recommend twisting existing products to raise their impact potential. For instance, ESG-alignment or SDG-alignment funds can intend to deliver real impact and boost their engagement policy to be transformed into ESG-engagement or SDG-engagement funds.

Finally, retail investors cannot yet be exposed to some innovative securities (e.g., sustainability-linked bonds or social impact bonds) because of the lack of specialized funds. Retail investors would gain access to new investment alternatives if such funds were proposed.

Recommendation 4: open high impact potential "alternative" funds to retail clients and transform existing "conventional" products into higher impact versions.

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[72] Bain & Co, 2023, *Global Private Equity Report*.
[73] Ibid.

Beneficiaries of sustainable funding

Discussion

Most current retail sustainable financial products are invested in listed securities from large issuers. A European retail investor wanting to contribute to fighting climate change will probably be recommended one (or several) of the flagship green financial products: environmental thematic equity funds, green bond funds or low-carbon equity funds.

Therefore, the lack of mainstream alternative solutions means the retail investor is de facto recommended to buy products which invest in securities issued by large companies (or states). Consequently, the investor is steered aways from responding to the huge funding needs by important segments of the economy, especially households, SMEs or small municipalities, even if he would prefer to.

In the consumer surveys, we could observe only low variations of the willingness to contribute to the financing of the green energy transition across potential beneficiaries. Across countries, financing projects for households appeared to be slightly more appealing than for other economic agents (municipalities, large corporations, SMEs, national public administrations).

This result advocates for new types of green financial solutions as current ones most often target large companies.

In interviews and focus groups, some participants report a preference for financing small companies as they perceive them as more innovative and therefore having a higher impact potential.

Regarding geographic zones, we could observe a clear preference for financing nationally or, even, locally. In interviews and focus groups, participants explain their preference for national/local projects by referring to a lower (perceived) risk or a higher transparency and easier access to information. They sometimes also connect it to an enhanced emotional salience and to the possibility to benefit from it.

Recommendation

A major adjustment would be to launch or mainstream financial products that target segments of the economy in need of a better access to capital. Financial products that may be appealing for this purpose include:

- Sustainable saving accounts (in which deposits are used to finance additional sustainable loans to households or SMEs);
- Funds of crowdfunding shares or loans; and
- Securitizations backed by portfolios of small-size green loans or energy performance contracts.

In the same vein, offering financial products with a regional/local focus (e.g., funds invested in shares of local unlisted SMEs) would contribute to bridge a major gap between the current state of the supply and the retail demand.

Recommendation 5: launch retail sustainable products that enable an exposure to small and local economic agents.

Conclusion

Despite significant improvements during the last decade, the European/Belgian retail market is still lagging behind what would be needed to efficiently channel retail savings towards climate change mitigation and other sustainable development goals.

All market participants (product manufacturers, distributors and final investors) must each continue to raise their game, especially since many of the problems identified in this report are mutually reinforcing. For example, both financial advisors and retail investors lack sufficient knowledge and are reluctant to start a discussion on sustainable finance topics – which prevents both sides from accumulating the necessary knowledge. Similarly, inadequate supply of sustainable financial products hinders retail clients from asking their advisors for financial products that are more suitable for their sustainability objectives and wider sustainability motivations – which fuels an undesirable status quo in supply and demand of sustainable financial products.

Finally, it is important to note that we did not try in this report to explain and remove the psychological factors accounting for the significant attitude-behavior gap of European/Belgian retail investors. Neverthless, we consider there is an obvious need to complement the abovementioned approaches with a behavioural perspective. In addition to providing rules and guidelines to ensure the clarity of sustainability information for the (minority of) retail investors that have the resources and capacity to process it, policy makers and regulators should also reflect on possible behavioural tools (like nudges, priming or default options) that could facilitate cognitively-constrained retail investor decisions and bridge their attitude-behaviour gap.

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Annex: Presentation of research materials

Interviews and focus groups

2DII conducted a series of qualitative interviews to investigate European retail investors' preferences, beliefs and perceptions regarding non-financial characteristics of financial products, the risk of green and impact-washing and their appetite for financial products related to the green energy transition. The target countries were Belgium, Spain, Italy, Netherlands, Poland and Sweden.

In such a context, 86 participants, recruited through social networks and communications via newsletters, were split between one-hour individual interviews and two-hour focus groups that took place from May to August 2021. Before participating, participants of the bilateral interviews were required to answer the survey questionnaire to get them more familiar with the topic and have a starting point for discussion.

Quantitative survey

The survey was conducted in November 2022 by the polling agency Kantar. It involved 1000 respondents or more per country. Participants, aged above 18, answered the questionnaire online and received a small allowance on completion.

The selection of participants was made using the following criteria:
- minimum monthly savings (e.g., EUR 50 in Belgium, Spain, Italy and the Netherlands) or minimum financial wealth (e.g., EUR 900)
- representativeness in terms of gender and age.

Table 4: descriptive statistics for the quantitative survey

Age range	Belgium	Spain	Italy	Netherlands	Poland	Sweden	Average
18-24	10,6%	8,4%	8,5%	12,2%	7,9%	10,0%	**9,6%**
25-34	17,5%	16,8%	14,2%	18,4%	22,0%	20,1%	**18,2%**
35-44	17,0%	21,0%	17,7%	16,1%	23,0%	16,0%	**18,5%**
45-54	16,9%	20,5%	21,7%	17,1%	14,2%	16,6%	**17,8%**
55+	38,1%	33,3%	38,0%	36,2%	32,9%	37,3%	**36,0%**
Nb of respondents	1002	1052	1053	1000	1000	1000	/

Mystery Shopping Visits

Following the ESA review, the mandate of the European Banking Authority (**EBA**) has been extended to include responsibility for 'coordinating mystery shopping activities of competent authorities, if applicable.'[74] To that end, the EBA has collated mystery shopping activities by national competent authorities with a view to sharing experience, learning valuable lessons and identifying good practices.[75] The EBA has also developed a methodological guide[76] to mystery shopping based on the findings and good practices identified in this report and to support design and implementation of mystery shopping activities.

We present in the commentary below an explanation of the methodology used for our mystery shopping campaign as against the seven steps articulated in the EBA's methodological guide.

Key steps in designing and implementing a mystery shopping activity (EBA)

1. Definition of goals

As mentioned in the main body of this paper, the research questions articulated for the mystery shopping campaign have been clearly specified and are grouped in three 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.

2. Selection of financial products and distribution channels

[74] Art 9(1)(g) EBA Regulation (2019/2175)
[75] EBA, 2021, *EBA report on the mystery shopping activities of national competent authorities*
[76] EBA, 2021, *The EBA Methodological Guide to Mystery Shopping*

The mystery shopping campaign clearly focuses on sustainable financial products proposed to retail clients who express sustainability preferences during the suitability assessment. It is focussed on financial advisor behaviour for large networks.

3. Selection of financial institutions

As stated by the EBA, '[i]n most cases, it is desirable for a [mystery shopping] activity to include as many different types of [financial institutions] and/or distribution channels as possible that provide a particular product/service so as to fully capture the diversity of the conduct of [financial institutions] in the market and to allow the conclusions of the [mystery shopping] activity to be robust. Different distribution channels (e.g. intermediaries, platforms) might have a major impact on consumer protection objectives, e.g. a product's suitability or its price/costs.'[77]

The mystery shopping results discussed in this paper are based on new results from 98 visits in LEVEL EEI target countries (30 visits in each of Italy, Spain and the Netherlands together with 8 visits for Sweden)[78] as consolidated with previous results based on 253 mystery shopping visits carried out in Denmark, Estonia, Germany, Greece, Ireland and Romania.[79] Therefore the *current campaign average (EU9)* results refer to the average for all nine target countries. Otherwise, the country specific results are for the specific target country. Note that we do not have country specific results for Sweden because the number of appointments was low (but these results for Sweden are included in the *current campaign average (EU9)* results).

In terms of geographic breakdown, 'a [mystery shopping] activity benefits if the selection of [financial institutions] in terms of geography is reflective of the aim of the activity. For example, a particular investigation into the conduct of [financial institutions] may benefit from a geographical scope that explicitly covers rural and/or urban areas.'[80]

For objectives of the mystery shopping campaign, it would have been relevant to include urban and rural areas as there may be a preconception that stronger sustainability preferences can be observed among urban households. However, for practical reasons we opted to impose no geographical constraint in this campaign. As a logical consequence, the concentration of visits in large cities and conurbations is a clear limitation of our campaign.

4. Selection of mystery shoppers and consumer profiles

'The characteristics of the consumer profiles that mystery shoppers should portray can be defined … according to the type of consumers that are meant to be the subjects in the [mystery shopping] activity or that would fall within the target market of the products and services designed by the [financial institutions].'[81]

'A consumer profile describes the characteristics of the individual that the mystery shopper will portray during the exercise, for example in terms of the degree of financial literacy, degree of aversion to financial risk, gender, ethnicity, age and/or other characteristics relevant to effectively achieving the goal of the [mystery shopping] activity.'[82]

This mystery shopping campaign is focussed only on the part of the suitability assessment which relates to the assessment of sustainability preferences (not the part of the suitability assessment which relates to traditional investment objectives). For this reason all mystery shopper profiles have the same financial situation and

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[77] EBA, 2021, The EBA Methodological Guide to Mystery Shopping, Paragraph 20.
[78] Note that the mystery shopping appointments in LEVEL EEI target countries only include Italy, Netherlands, Spain and Sweden. As around 90 mystery visits were planned, it was decided to focus on the three most important target countries in terms of financial markets to aggregate quantitative results. In addition note that 12 different bank networks (4 in each country on average) were targeted among the largest commercial bank networks in each target country.
[79] Please refer to 2DII, 2023, *Assessing client sustainability preferences… lost in the maze?* for further details of the mystery shopping visits carried out in Denmark, Estonia, Germany, Greece, Ireland and Romania.
[80] EBA, 2021, *The EBA Methodological Guide to Mystery Shopping*, Paragraph 21.
[81] EBA, 2021, *The EBA Methodological Guide to Mystery Shopping*, Paragraph 25.
[82] EBA, 2021, *The EBA Methodological Guide to Mystery Shopping*, Paragraph 26.

investment objectives. Our mystery shopper profiles differ only in terms of the specific nature of the environmental or social objectives they have for their investments.

All mystery shopper profiles are not aware of the recent regulatory changes to the suitability assessment but are aware of more sustainable investment opportunities becoming available and would like to invest in a sustainable manner themselves. All mystery shopper profiles have received a lump sum of €50,000 in inheritance, or a proportional equivalent according to the standard of living of the country concerned by the visits, and would like to invest the entirety of this money for the long term (e.g. saving for retirement) and has no need to access any of this money in the short term. All mystery shoppers would like to invest the full €50,000 in accordance with their sustainability preferences/environmental and social objectives.

For each target country, BARE International recruited mystery shoppers from its database selected for already having participated to financial projects. No age criterion was specified. Selected mystery shoppers were provided with training and had to pass a quiz to check their understanding and if they were adequately prepared for the visit. At the end of the quiz a code was shared if the individual had passed the test. BARE International's Resources Managers encouraged individuals to ask their questions and were made available for further details or questions by mail or phone.

In addition, a 2 hour webinar coordinated by BARE International and 2DII presented key information to mystery shoppers and was followed by a Q&A session to directly answer the questions that recruited mystery shoppers could have. This webinar was recorded and proposed for all absent or new recruited mystery shoppers of this campaign.

5. Design of mystery shopper scenarios

For each mystery shopper profile, 2DII prepared a scenario/briefing document for the mystery shopper which included: (1) financial situation and investment objectives; (2) key defining characteristics and (3) particular points to note and questions for raise during the appointment.

As suggested by the EBA, the scenarios/briefing documents were:

- Targeted (i.e. designed to test the specific attitudes of financial advisors in response to different sustainability preferences)
- Credible (i.e. reflects realistic consumer profiles and requests)
- Straightforward, simple and brief
- Ethical (i.e. does not imply any personal risk or possibility to break the law)

All appointments were directly managed by mystery shoppers who presented themselves at each visit under their real identity. To be correctly directed to a financial advisor who could answer their investment requests, mystery shoppers were asked to specify the amount of money they wished to invest at each call (€50,000 or a proportional equivalent according to the standard of living of the country concerned by the visits).

According to EBA, 'training and briefing materials serve to train the mystery shoppers on how the interaction should play out. This is critical to ensure consistency, quality, and the overall success of the [mystery shopping] activity, no matter the size or scale. Deploying video training and briefing materials via short, engaging multimedia clips could be seen as an effective way for mystery shoppers to understand better the scenario and adapt to various situations. As part of the training, pilot phases could also be planned for mystery shoppers to test the scenario and to ensure that it makes sense in a real-life situation as well as to check that briefing notes and assessment questionnaires - which should be designed at the same time as the [mystery shopping] scenario is defined … adequately cover all the issues to be reported by the mystery shopper.'[83]

Recruited mystery shoppers were offered a training that included both a theoretical part and a practical part in order to get prepared for their interviews with financial advisors. The theoretical part included presentation of MIFID requirements for financial advisors and explanations of sustainable finance key concepts (ESG, SRI,

[83] EBA, 2021, *The EBA Methodological Guide to Mystery Shopping*, Paragraph 34 and 35.

best-in-class, exclusions etc.) and tools (sustainable funds, label etc.). The practical part revolved around particular points to be addressed during the interview for each profile, methods for optimizing appointment scheduling and simulations of interviews.

6. Design of mystery shopper assessment questionnaires
In parallel to the design of the mystery shopper profiles and scenarios/briefing documents, a feedback form/assessment questionnaire for mystery shoppers was prepared. The feedback form includes a set of questions which each mystery shopper must answer immediately after the appointment with the financial advisor.

As suggested by EBA, the feedback form was:

- developed in an organised and systematic manner (i.e. to be completed by all mystery shoppers but with different questions revealing themselves according to the mystery shopper profile used during the appointment);
- objective (i.e. relying on actual observations instead of feelings); and
- as short as possible and linked to the mystery shopping focus.

As for the previous mystery shopping campaigns, we struggled to limit the number of feedback questions. In the future, we will have to pay deep attention to this problem.

Mystery shoppers were trained in how to complete the assessment questionnaire.

7. Assessment of the findings and follow-up
For post-appointment reporting in the target countries, mystery shoppers completed an online version of the feedback form. Completed responses were reviewed by BARE International's Quality Control team to ensure evaluations were carried out in conformity with the guidelines and in due time. BARE International delivered Excel tables with all results at the end of the mystery shopping campaign.

Mystery shoppers were also required to forward any materials received form the financial advisor. They could contact 2DII or BARE International for any additional questions before or after the appointment.

Once the responses to the feedback form and all additional materials were received, 2DII proceeded to analyse the results in a quantitative (for closed questions) and qualitative (for verbatims of open questions) manner, both at country and current campaign average level.