

Investment behavior with sustainable financial instruments: A behavioral-economic experimental analysis of “ESG preferences” and their implications for financial institutions and policy



Sustainable Finance and Climate Protection

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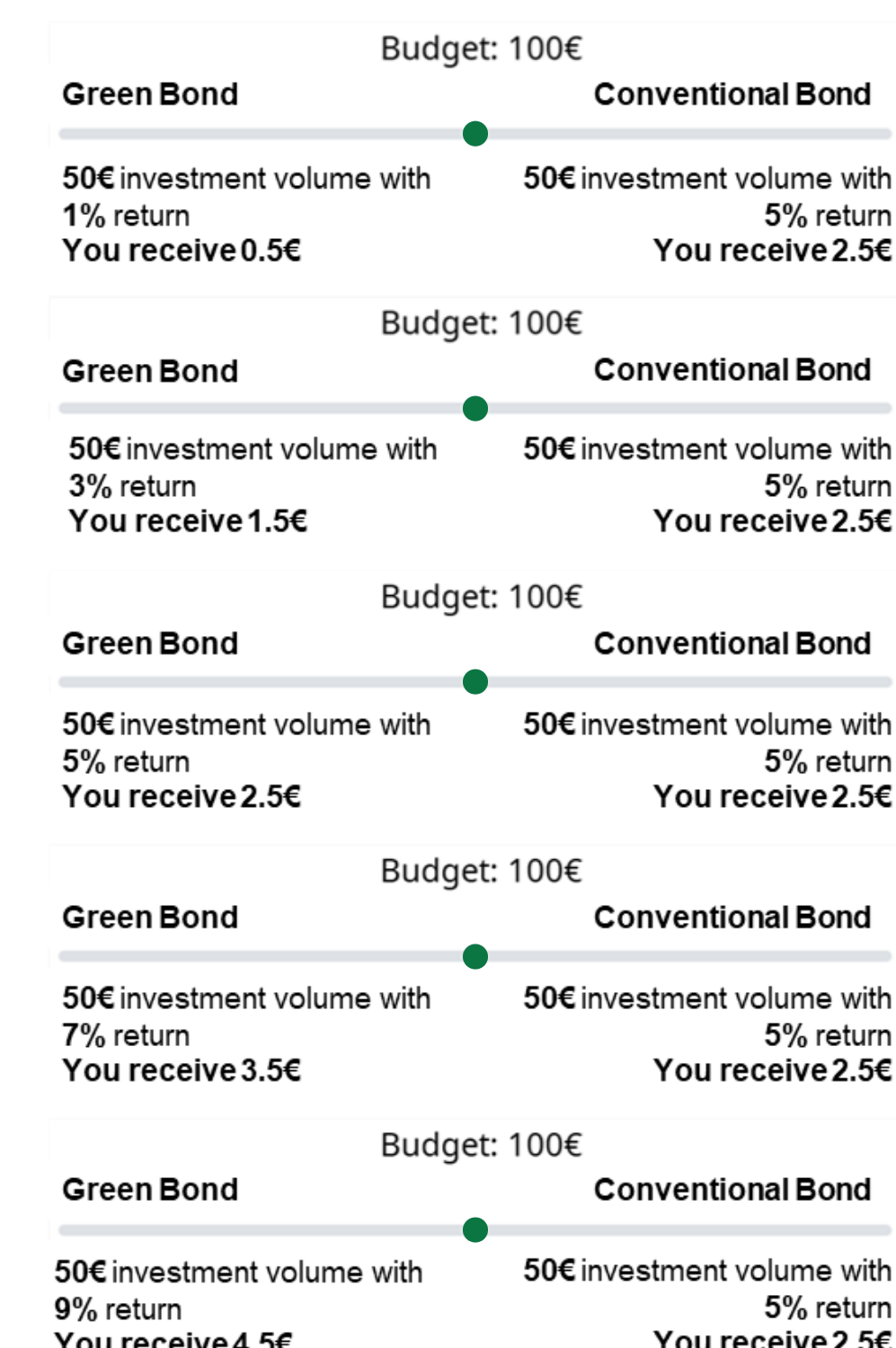
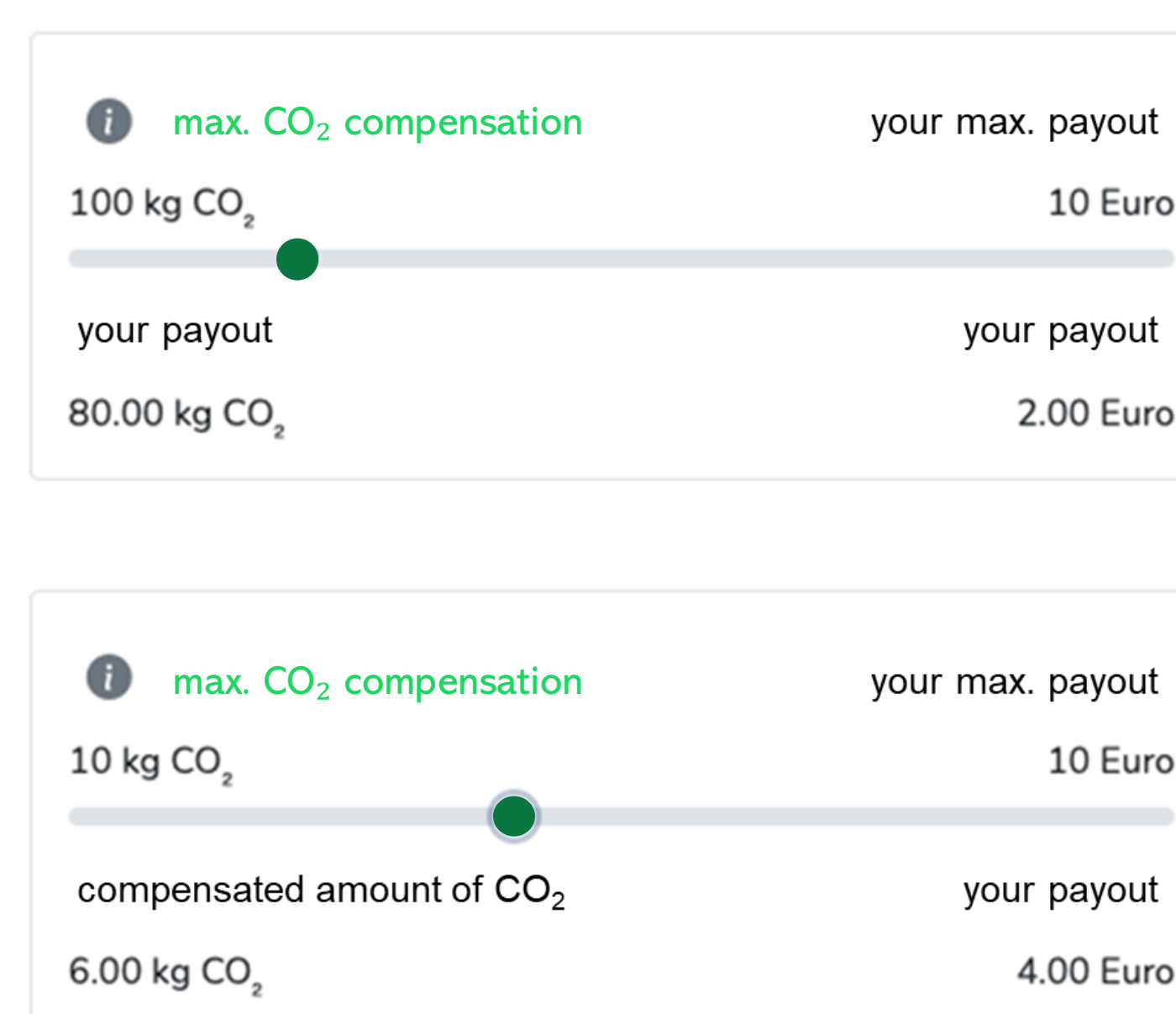
1 BACKGROUND

- Sustainable investment's rise from niche to near mainstream holds strong potential for advancing climate goals
- Previous research suggests that social preferences may significantly influence the demand for sustainable investments
- Do Investors really want to fight climate change?
→ Impact Preferences?
- The evidence for financial motives is mixed

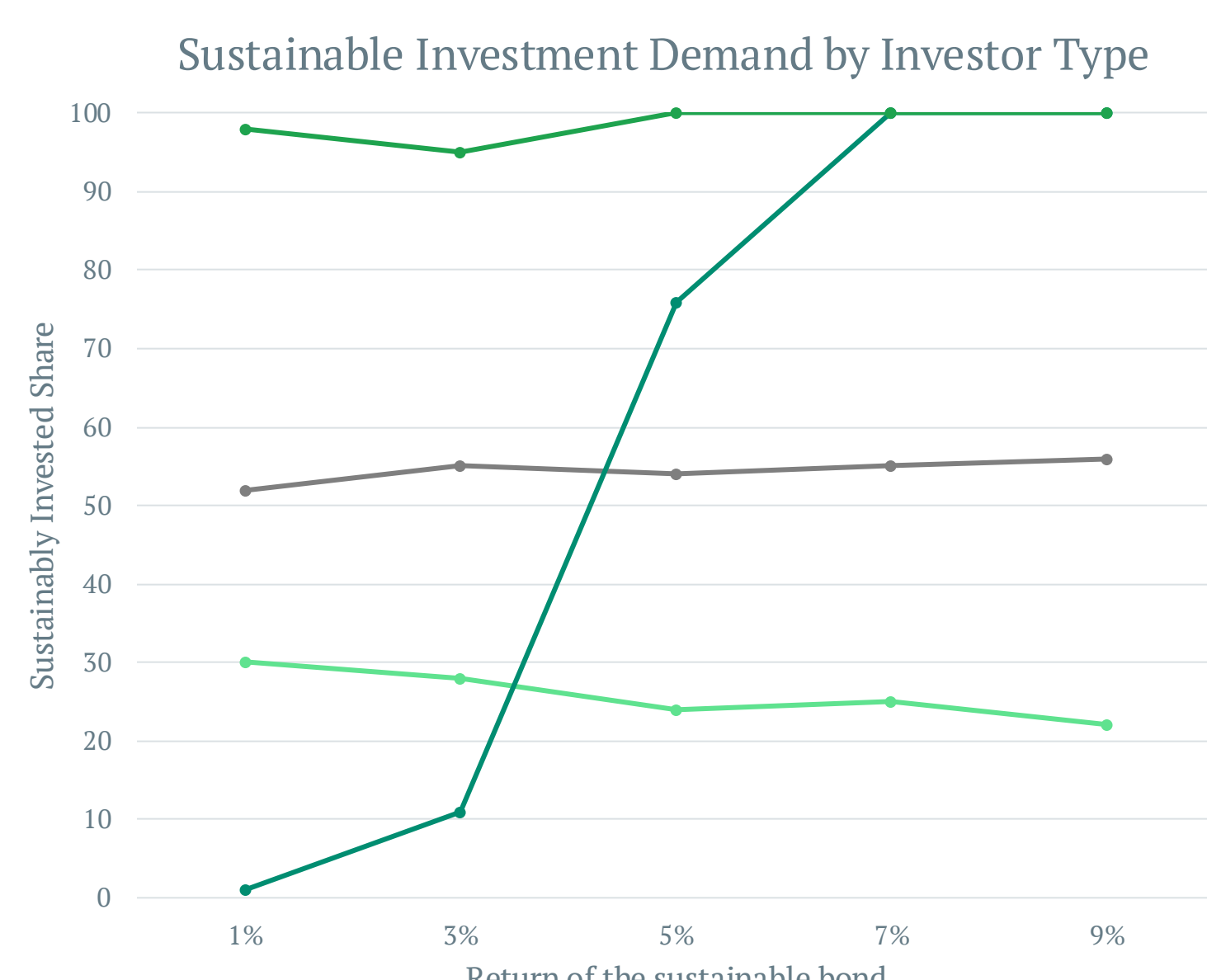
Research question

Do investors have preferences for sustainable investments, and if so, what are the drivers of sustainable investment demand?

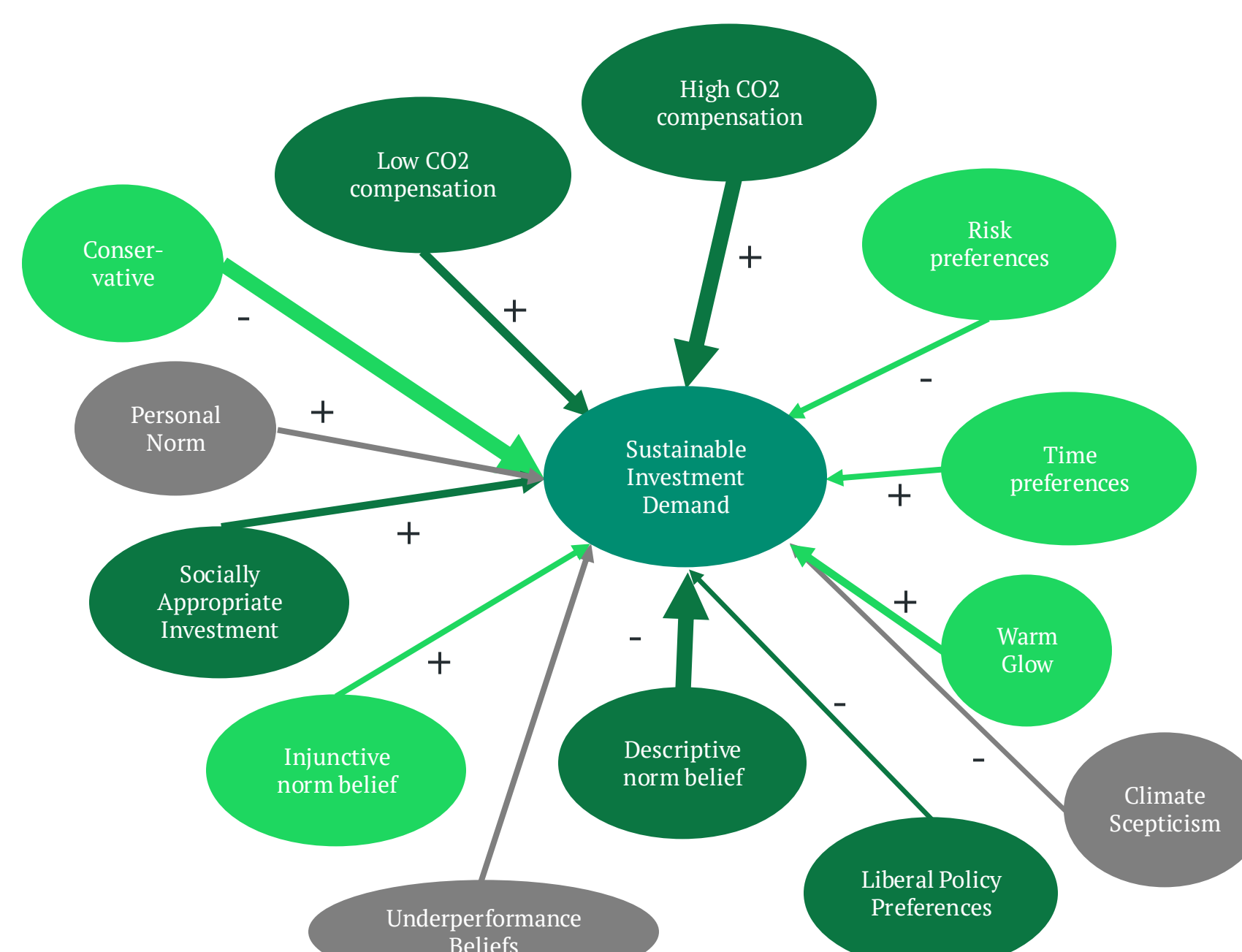
2 IMPACT PREFERENCES & SUSTAINABLE INVESTMENT DEMAND



3 SUSTAINABLE INVESTMENT DEMAND

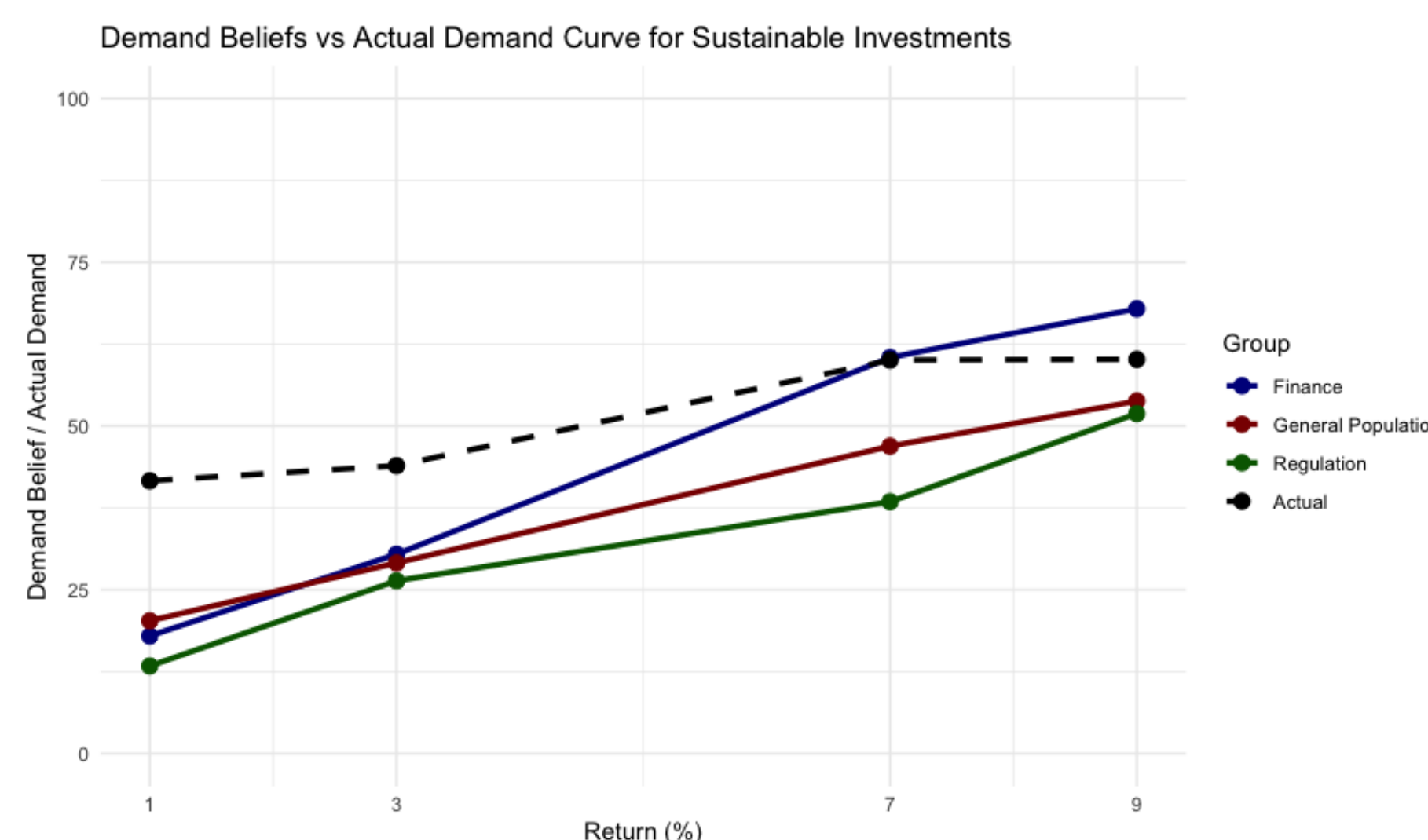


4 PREDICTORS OF SI DEMAND



6 MARKET BELIEFS

- Experts underestimate peoples' WTP for sustainability information
- All groups seemingly overestimate peoples' sensitivity to changing impact of CO2 compensation
- All expert groups seem to believe that women invest more sustainably than men, whereas our findings suggest the opposite
- All groups overestimate peoples' literacy in terms of finance in general, environmental matters and sustainable finance



5 OUR 4 DISTINCT TYPES

The Sceptics (Type 1):

- 31% of the sample
- Prefer more conservatively oriented politics
- Believe that many people already hold SI
- Higher WTP for sustainability information
- Rather impatient, less altruistic

The Indecisive (Type 2):

- 35% of the sample
- Rather young people, mostly 18-34 years old
- Fully employed
- Less financially & environmentally literate
- Scope insensitive

The Maximizers (Type 3):

- 21% of the sample
- Mostly people over 55 and retired
- Highly financially & environmentally literate
- Less likely to believe that CO2 compensation can have an impact

The Advocates (Type 4):

- 13% of the sample
- More likely to say that one should hold SI
- Scope insensitive
- Patient, altruistic, receive warm glow from sustainable actions

7 IMPLICATIONS FOR FINANCIAL INTERMEDIARIES & POLITICS

- Exploit existing preferences for sustainable financial products → reduce complexity of investments
- Understanding of sustainability differs → Explain regulatory definitions and spread knowledge to avoid false perception of green washing
- Financial advisors and intermediaries have a leverage effect → Support them e.g., via information campaigns
- “Warm glow” and social preferences can provide incentives for green washing → Keep standards high and enforce them
- Existing demand will not close the investment gap → Make sustainable investments more attractive