Maastricht University

Sustainable investment preferences and how they are delegated

Citation for published version (APA):

Laudi, M. (2023). *Sustainable investment preferences and how they are delegated*. [Doctoral Thesis, Maastricht University]. Maastricht University. https://doi.org/10.26481/dis.20231115ml

Document status and date:
Published: 01/01/2023

DOI:
10.26481/dis.20231115ml

Document Version:
Publisher's PDF, also known as Version of record

Please check the document version of this publication:

• A submitted manuscript is the version of the article upon submission and before peer-review. There can be important differences between the submitted version and the official published version of record. People interested in the research are advised to contact the author for the final version of the publication, or visit the DOI to the publisher's website.
• The final author version and the galley proof are versions of the publication after peer review.
• The final published version features the final layout of the paper including the volume, issue and page numbers.

Link to publication

General rights
Copyright and moral rights for the publications made accessible in the public portal are retained by the authors and/or other copyright owners and it is a condition of accessing publications that users recognise and abide by the legal requirements associated with these rights.

• Users may download and print one copy of any publication from the public portal for the purpose of private study or research.
• You may not further distribute the material or use it for any profit-making activity or commercial gain
• You may freely distribute the URL identifying the publication in the public portal.

If the publication is distributed under the terms of Article 25fa of the Dutch Copyright Act, indicated by the “Taverne” license above, please follow below link for the End User Agreement:

www.umlib.nl/taverne-license

Take down policy
If you believe that this document breaches copyright please contact us at:

repository@maastrichtuniversity.nl

providing details and we will investigate your claim.

Download date: 02 May. 2024

Chapter 8

Impact Paragraph

The studies presented in this dissertation contribute to our understanding of how concerns for sustainability influence individual decision-making in financial markets. As such, the studies have implications for practitioners in different sectors.

First, the dissertation has implications for policy makers. It is a pressing concern for policy makers to increase the amount of funds that are invested under the consideration of ESG criteria. As part of the action plan to promote sustainable investments, the European Commission has put in place a policy amendment to the MiFID II, which requires financial advisors to elicit their clients' sustainability preferences in their investments. In Chapter 2 of this dissertation, I identify a potential unintended side consequence of this policy amendment. Specifically, financial advisors may take knowledge about their clients' sustainability preferences in order to extract additional profits from those who do communicate these preferences. When clients can signal high financial literacy, the premium is eliminated, but sustainable investment clients who cannot signal high financial literacy bear the burden of higher fees. This form of discriminatory pricing is concerning, as it could hurt consumer welfare and negatively affect the long-run attractiveness of sustainable investing.

In a separate survey with financial regulators, I show that these results are a surprise to the majority of policy makers. When confronted with the results, a significant majority (81%) also believes that attention from policy makers is necessary. Regulators suggest

policy interventions, such as transparency (30%), standardized fees (25%) and consumer education (17%).

In addition, Chapter 3 shows that if conflicts of interest that potentially lead to price discrimination can be resolved, financial advice may be a useful tool to increase households' propensity to invest sustainably. Investors in my sample report a lack of knowledge about sustainable investing and tend to view sustainable investments as a trade-off between non-pecuniary benefits, such as having an impact or feeling good, and a lower risk-adjusted return. However, investors are receptive to new information concerning sustainable investing and change their investment behavior accordingly. Specifically, I show that peer information provided at the buying decision increases the proportion of funds that flow into sustainable investments. Importantly, this information only alters behavior, when it changes investors' prior beliefs.

Chapter 4 gives an indication that the buying decision is indeed the point in time when investors are most susceptible to new information on sustainable investments. After this decision, my results show that retail investors' portfolios are relatively sticky, which leads them to do few adjustments their portfolios, even after news of ESG scandals concerning companies in their portfolios.

What is important to mention at this point is of course that policy makers should supervise that investment clients are not manipulated into sustainable investments. The financial advice should be utilized to close the knowledge gap of investors, in order to better align sustainability-minded households' investments with their preferences.

This dissertation also has implications for financial institutions catering to retail investors. Chapter 2 shows that clients with a preference for sustainability have a higher willingness to pay for advice. Since financial advice represents a credence good, where clients cannot fully assess the quality, even ex-post, this may be exploited by financial advisors. At least in the short run, this dissertation shows that it is a profitable strategy for financial advisors to use discriminatory pricing, where higher fees are charged and more expensive products are sold to sustainable investors. However, these implications should be taken with caution. Despite moral considerations related to price discrimination, my

results cannot make any claims on the long-term profitability of such a strategy. For example, there may be potential negative shocks to profitability if this price discrimination is uncovered and made public.

Next to implications for pricing, the results presented in this dissertation may help finance professionals better understand how retail investors react to sustainability information. As shown in Chapter 3, investors are influenced by new information that change their prior beliefs related to sustainable investments at the point of purchase, however, as shown in Chapter 4 their trading behavior is less influenced by new information about the sustainability of companies that they already hold in their portfolios. This provides an insight about when sustainability information should be shown to investors, in order to help them align their portfolios with their sustainability preferences.