Neuroprofiler
QUANTIFY BEHAVIORS

Sustainable investments: what are the expectations of private investors?

SURVEY ON PRIVATE INVESTORS GROWING APPETITE FOR INDUSTRIES IDENTIFIED BY THE EUROPEAN GREEN TAXONOMY

GLOBAL WARMING, THE HEALTH CRISIS, AND SOCIAL TENSIONS HAVE RAISED AWARENESS TOWARDS THE LIMITS OF OUR TRADITIONAL ECONOMIC MODEL.

Global warming, the health crisis, and social tensions have raised awareness towards the limits of our traditional economic model.

Investors are now looking to have a positive impact on society and the planet, in their daily purchases but also their investments. This awareness is reflected through a growing appetite for sustainable finance.

This trend is reinforced by the new European Sustainable Finance Disclosure Regulation (SFDR), which provides a solid framework for classifying financial products according to their social and environmental impact.

ESG (Environment, Social and Governance) **products could therefore play a part in reviving the economy**, provided that financial institutions manage to understand their clients' expectations on the subject.

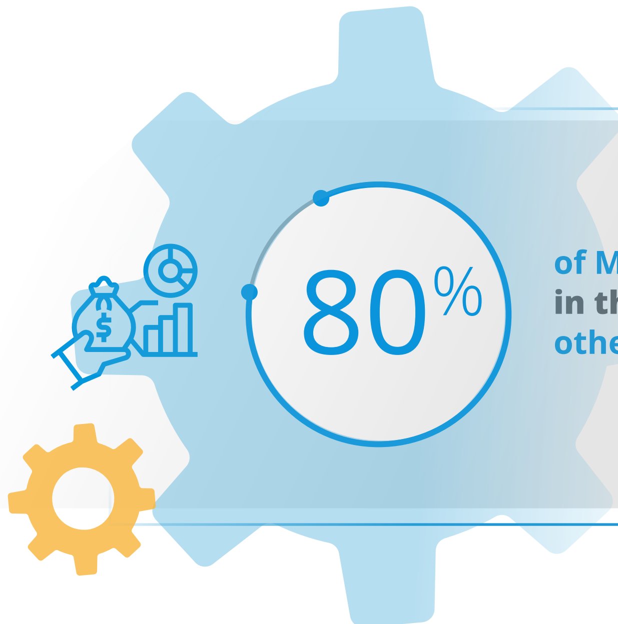
> **This is the purpose of this white paper, which aims to present the results of an unprecedented survey conducted among a large international sample of investors on their expectations in terms of sustainable finance.**

1 | ESG PRODUCTS:
A SUSTAINABLE AND PROFITABLE TREND

Sustainable finance refers to an investment approach that integrates environmental, social, and governance (ESG criteria). In line with the concerns of the public, the rise of sustainable finance dates from the early 2000s, with a strong acceleration in 2020. According to a Morningstar study, **assets in sustainable funds reached a record $1250 billion that year.** ESG funds have also demonstrated greater resilience in the markets, particularly in times of crisis. Contrary to popular belief, **responsible investment funds now offer returns that are comparable to or even better than traditional financial products.**

SUSTAINABLE FINANCE IS FAVORED BY INVESTORS' EXPECTATIONS

Investors, especially younger ones, are also increasingly looking to make a positive impact with their investments. According to a 2020 DeVere study, 80% of Millennials say they are looking for impact in their investments, compared to 60% for other investors.



of Millennials are looking for a positive impact in their investments, compared to 60% for other investors. *(Study DeVere Group – 2020)*

ESG PRODUCTS SUPPORTED BY REGULATION

To support the development of sustainable finance and to protect investors, several European regulations have been introduced. One such regulation is the Sustainable Finance Disclosure Regulation (SFDR), which requires distributors of savings and investment products to **classify financial products according to a taxonomy of environmental impacts** of 10 March 2021.

European taxonomy

To combat *greenwashing*, the EU has introduced a classification of financial products according to the degree and nature of their impact, starting with environmental impacts, divided into 6 main categories:

- **Climate change** mitigation
- Adaptation to **climate change**
- Protection and restoration of **biodiversity** and ecosystems
- **Pollution** prevention and control
- Transition to the **circular economy** (waste prevention and increased use of secondary raw materials)
- Sustainable use and protection of **water and marine resources**

The same work will soon be done on the social component. By establishing precise criteria for classifying ESG products, this new regulation aims to provide investors with greater transparency, so that they can invest more easily and with full knowledge of the facts in ESG products.

The latest part of the European regulation MiFID II (Markets in Financial Instruments Directive), which should come into force during 2022, **will also require financial institutions to ask clients for their ESG preferences** to provide them with advice in line with their investment values.

SUSTAINABLE INVESTMENT ENCOURAGED BY FINANCIAL INSTITUTIONS

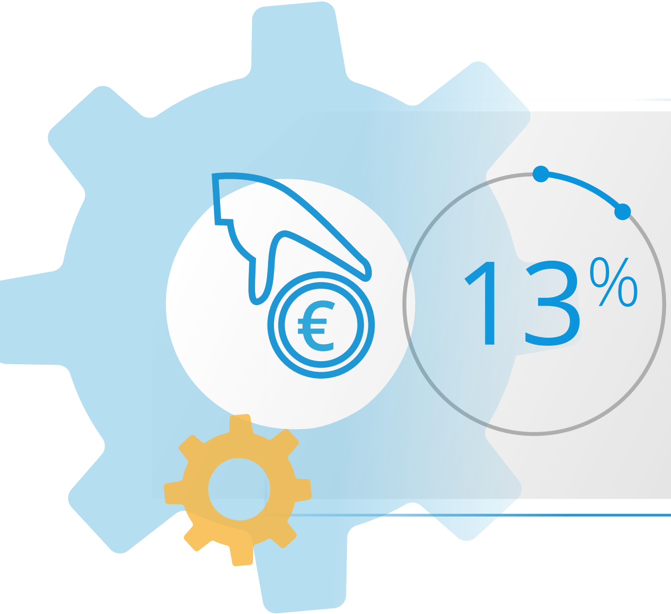
In their search for new sources of profitability, financial institutions are welcoming the rise of ESG products. The conversion from euro funds to unit-linked products is a key issue for them. The majority of ESG financial products currently fall into the unit-linked category. **Sustainable finance thus appears to be an excellent lever for boosting clients' portfolios**, provided that their ESG preferences are well known to offer them products in line with their values...

2 | EUROPEAN INVESTORS' EXPECTATIONS IN TERMS OF SUSTAINABLE FINANCE

Biodiversity, the circular economy, adaptation to climate change... not all the thematics in the taxonomy are equally valued by private investors. These preferences are still often opaque for financial institutions, which makes it difficult to define their ESG offering for retail investors.

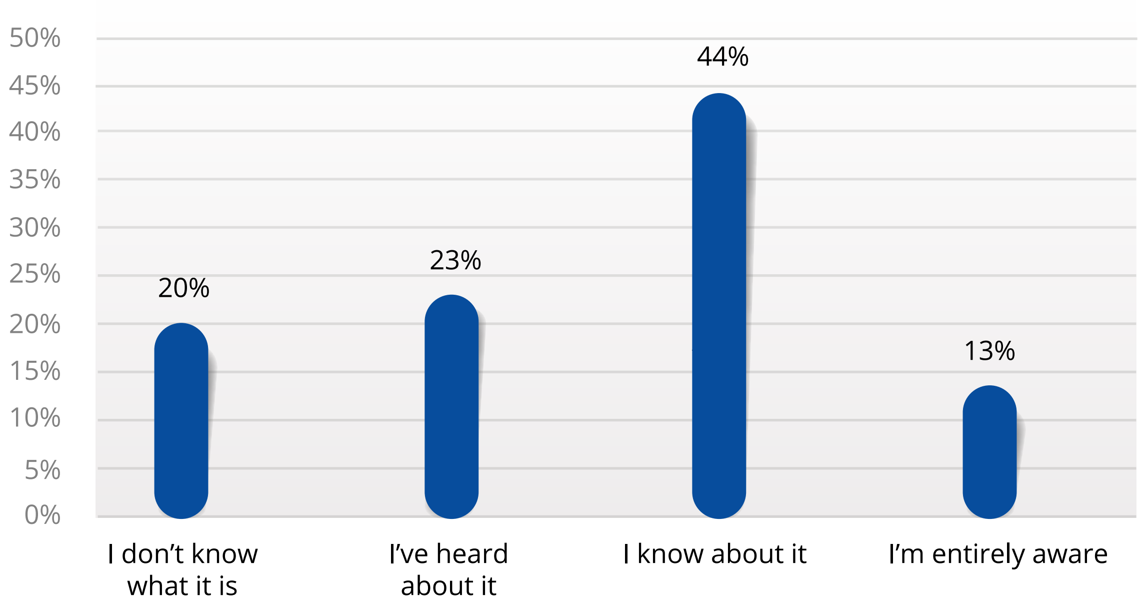
To help them better understand these expectations, Neuroprofiler surveyed in July 2021 on the appetite of private investors for sustainable finance, whose main findings you can find below.

The 800 respondents, from various socio-demographic backgrounds and geographies (Europe and the United States), took part in an interactive investment game, in which each question depends on the answer to the previous question. Thanks to a behavioral finance algorithm (ESGprofiler), this survey captures in a much more detailed way than a traditional survey the appetite of private investors for a subject as complex as the European green taxonomy.



13% **of respondents are fully aware of the concept of sustainable investment**

Are you familiar with the concept of sustainable investment?

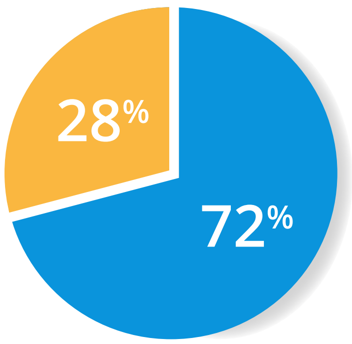


These results are the same regardless of gender or nationality. Age and the financial situation only marginally affect them. **20% of respondents earning more than €500,000** are fully conversant with the concept of sustainable investment, compared to 10% of **those earning between €0 and €50,000**. 20% of those over 40 years of age are perfectly familiar with sustainable investment, compared to 10% of those under 40.
Sustainable finance, therefore, has the potential to reach a large proportion of investors, provided that financial institutions continue their financial education efforts.

28%

of respondents are willing to sacrifice profitability for sustainable finance

Consistent with other studies on the subject, the appetite for sustainable investing is **higher among investors under 40 and among women.**
Interestingly, **45% of our US investors surveyed are willing to sacrifice profitability to have a greater impact on sustainable finance, compared to only 20% of European investors.**
The financial situation has a slight impact. 30% of respondents earning between €0 and €50,000 are willing to sacrifice their profitability for sustainable finance, compared to 22% of those earning more than €500,000.



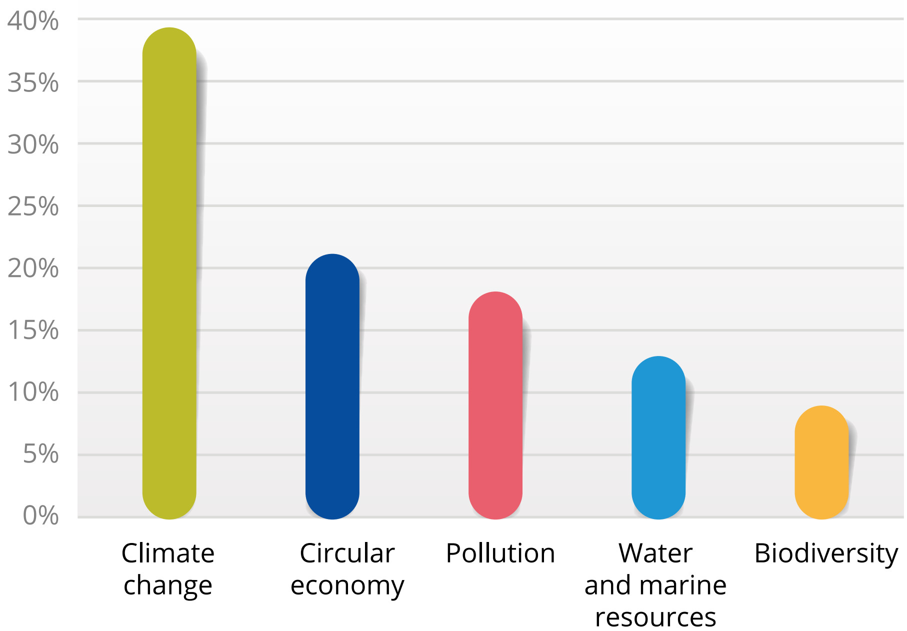
Are you willing to sacrifice profitability for sustainable finance?

- I'm willing to sacrifice profitability for sustainable finance
- I'm not willing to sacrifice profitability for sustainable finance

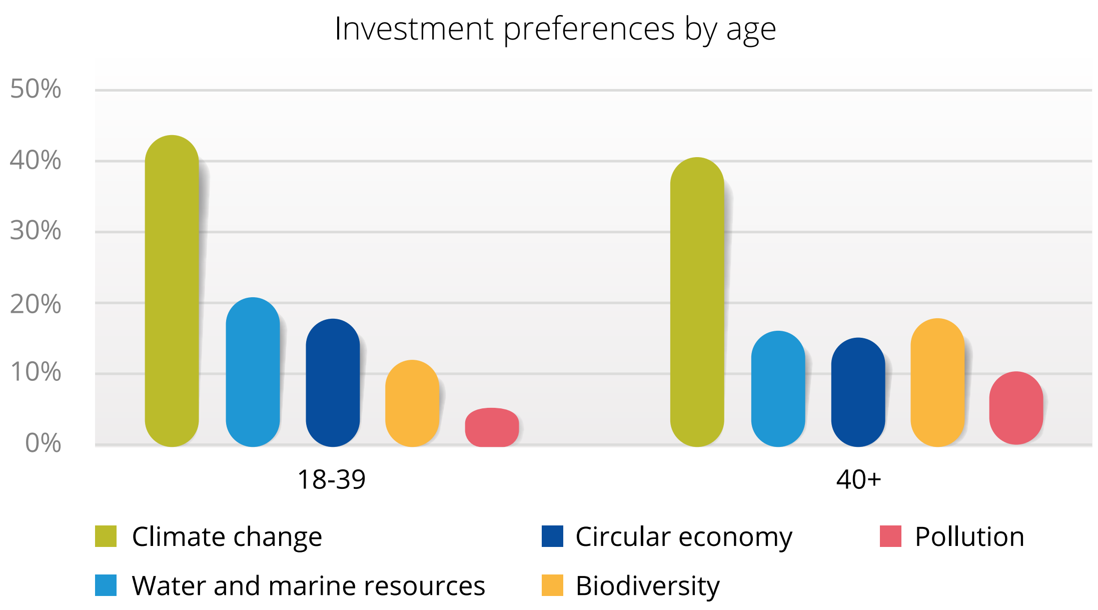
Fighting climate change is the priority investment for private investors

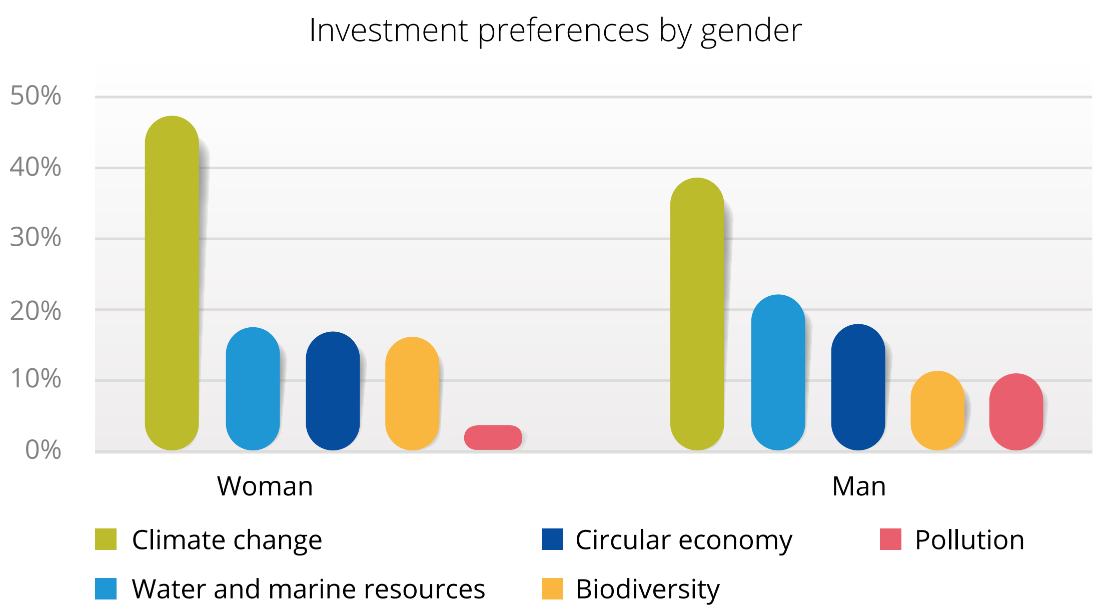
39% **of respondents consider climate change to be an ESG priority, ahead of the circular economy (21%), pollution (18%), water and natural resource conservation (13%), and biodiversity (9%)**

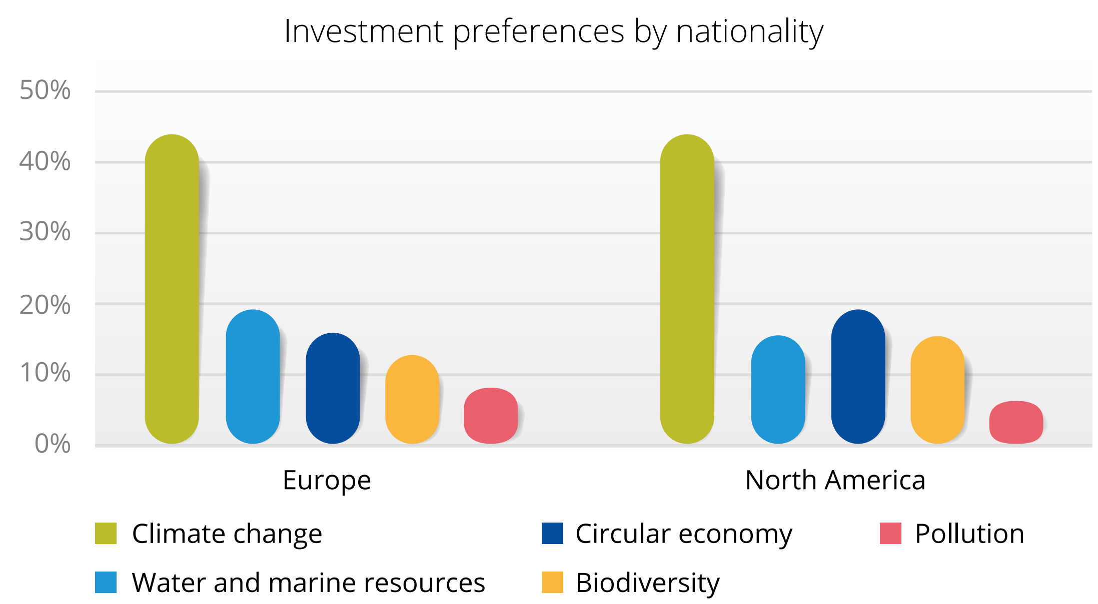
Classification by order of importance of the thematics of the European taxonomy for investors

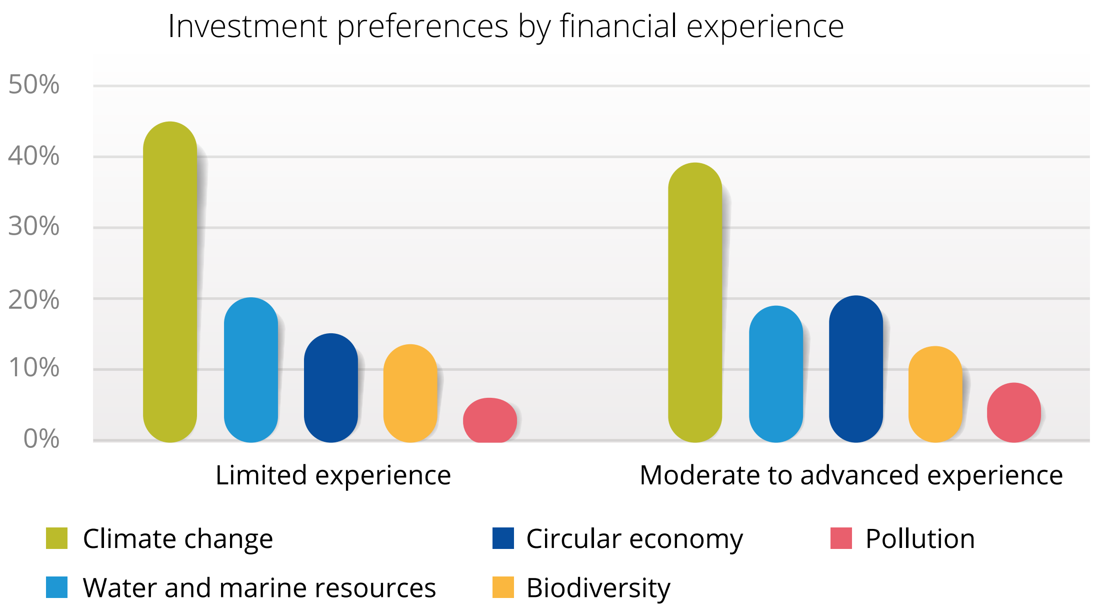


➡ **This preference ranking is valid regardless of age, gender, financial situation, financial knowledge, or geography.**


Investment preferences by age
50%
40%
30%
20%
10%
0%
18-39
40+
Climate change
Circular economy
Pollution
Water and marine resources
Biodiversity


Investment preferences by gender
50%
40%
30%
20%
10%
0%
Woman
Man
Climate change
Circular economy
Pollution
Water and marine resources
Biodiversity


Investment preferences by nationality
50%
40%
30%
20%
10%
0%
Europe
North America
Climate change
Circular economy
Pollution
Water and marine resources
Biodiversity



This marked sensitivity to the climate is not surprising, given the growing media coverage of the subject in recent years. A study by Méta-Media estimates that in 2019, national press titles devoted 7 times more articles to climate change than 10 years earlier.

This thematic is also the most common in the current offering of ESG financial products, which are mainly oriented towards carbon or green energy issues, and much less towards biodiversity or the circular economy.

However, these subjects should not be opposed because, in environmental matters, everything is linked: working for the preservation of biodiversity and marine resources also makes it possible to fight against global warming. We should also note that the extinction of a species would be irreversible, whereas it is always possible to reverse the trend in terms of global warming.

It is therefore essential to increase awareness of these other environmental issues among private investors.

3 | THE POWER OF BEHAVIORAL FINANCE COMBINED WITH GAMIFICATION

The specificity of this ESGprofiler survey is based on **the combined use of behavioral finance**, which makes it possible to collect precise data on investors' values, and gamification, which makes it possible to popularize a subject as complex as the European taxonomy.

This unique combination was chosen by Neuroprofiler to help financial institutions, well beyond their regulatory obligations, to advise their private investors in a playful and relevant way.

To this end, Neuroprofiler has designed investment preference assessment and financial education modules that can be used independently or in combination:

- **RISKprofiler :** assesses the risk appetite of clients
- **ESGprofiler :** assesses the ESG preferences of clients (ESG score, impacts, exclusions...)
- **MIFIDprofiler :** assesses the MiFIDII, IDD, and LSFin profile of clients (financial knowledge and experience, investment objectives...)
- **RECOprofiler** : recommends financial products (funds, portfolios, etc.) in line with the results of the RISKprofiler, ESGprofiler, and MIFIDprofiler
- **EDUprofiler :** an e-learning platform that enables clients to understand the mechanisms and thus invest in financial products that correspond to the RECOprofiler recommendations.

Behavioral finance to capture the profile of investors

Behavioral finance aims to model the psychology of the investor. At the frontier between psychology, neuroscience and social science, this theory considers that in matters of investment, investors do not systematically operate according to a rational behavior. They are subject to a series of cognitive biases, which play a major role in their decision-making.

Gamification to foster investor engagement

Attribution of scores and rewards according to the levels reached, use of quizzes, progress bars... Gamification is a marketing technique that consists of using the mechanics and dynamics of games in completely different areas. By immersing the user in a playful and stimulating universe, gamification helps to encourage the commitment of participants, by making them captive. In the financial world, gamification allows to give a more attractive image of the bank, to encourage customers to adopt new behaviors, and to improve the financial education of savers.

ESGprofiler

An investment game to help sell ESG products

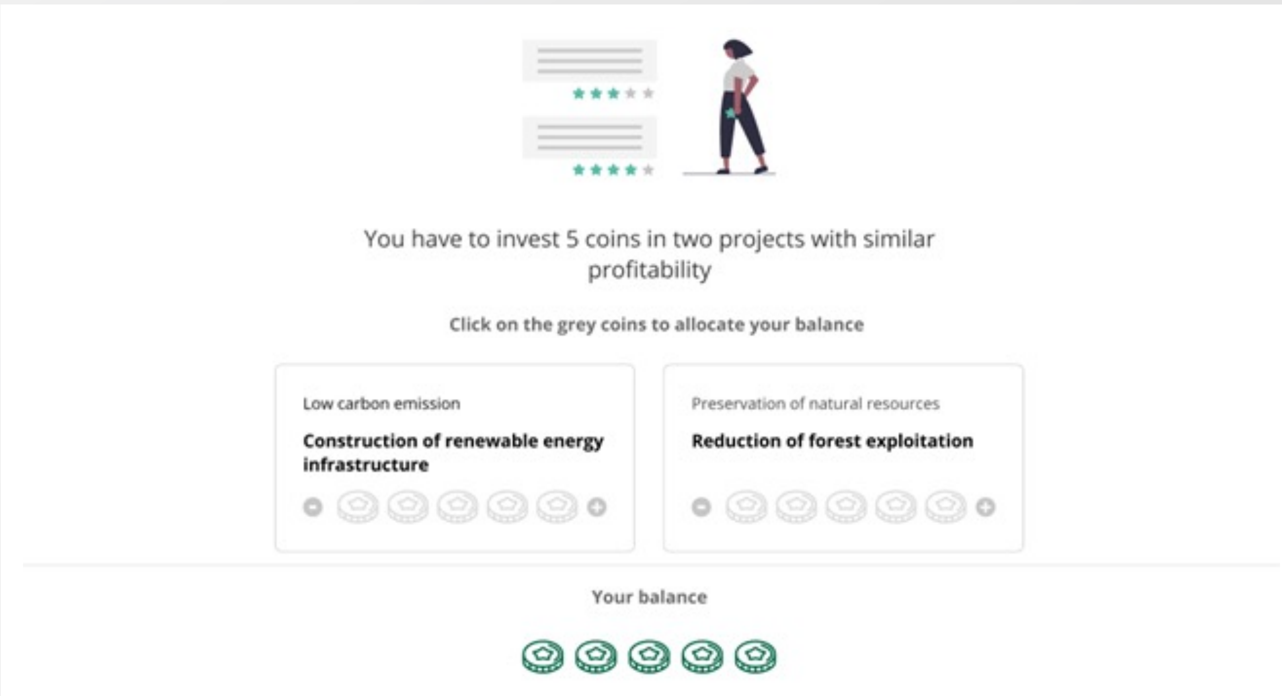
The ESGprofiler allows your clients to discover their investment profile and values through a fun investment game.

The ESGprofiler is currently used for various purposes:

- **Case 1:** Responses to the new MiFIDII and IDD requirements to consider investors' preferences in terms of sustainable finance and to recommend ESG products to clients in line with their values.
- **Case 2:** Raising customer awareness of sustainable finance and increasing sales of ESG products, via a marketing campaign on social networks or via e-mail.
- **Case 3:** Segmentation of customer expectations in terms of sustainable finance and products via a survey similar to the one in this white paper.

Through these three use cases, the ESGprofiler allows to:

- **Acquire new customers**, using the ESGprofiler as a lead generation tool in online marketing campaigns,
- **Increase the amount of money outstanding from existing customers**, by offering products tailored to investors preferences,
- **Boost your unit-linked sales** by directing savers towards more sustainable products, via a gamified and engaging path.



EDUprofiler

Educating your clients on sustainable finance issues

Globally, **only 30% of adults have mastered basic financial concepts, with this percentage dropping to 25% for Millennials** (Possible Finance Association 2021 study).

However, as we have seen in this survey, **private investors, especially younger ones, have a strong appetite for sustainable finance.** Nevertheless, they will not be able to invest in this type of product if they do not understand the basics of finance. Indeed, **the European regulator prohibits the sale of financial products whose mechanisms are not understood by the private investor,** to better protect him.

Financial education thus appears to be an **essential lever for encouraging retail investment** in ESG products.

In response to this problem, Neuroprofiler has designed the EDUprofiler, **a fun e-learning platform that helps improve clients' financial knowledge by training them in the mechanisms of financial products.**

Survey Methodology
Survey conducted on a sample of 810 people, in July 2021, via the Prolific platform.
Age:
- 31% of 18-29-year old's
- 39% of 30-39-year old's
- 19% of 40-49 year old's
- 11% over 50 years old

Income:
- 39% from $0 to $50,000
- 29% from $50,000 to $100,000
- 22% from $100,000 to $500,000
- 10% from $500,000+

Nationality:
- 60% Europe
- 33% North America
- 17% Other

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QUANTIFY BEHAVIORS

Ready to use behavioral finance to boost the sale of your ESG products?

Request a demo

www.neuroprofiler.com contact@neuroprofiler.com