



# Insights on sustainable finance and disclosures

**Financial education and sustainable finance**

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## Financial Education and Financial Literacy: Building Capability

**Financial education** is the process by which people gain information, skills, confidence and motivation to act, through various means, including classroom education, one-on-one counselling and coaching, technology-based interventions, and self-study and by professional interaction and advice.

Desired outcomes: ***sustained financial well-being***, in which people can fully meet current and ongoing financial obligations, can feel secure in their financial future, and are able to make choices that allow enjoyment of life.

**Financial literacy:** the skills, knowledge and tools that equip individuals to make financial decisions and actions to attain their goals

Also known as **financial capacity**, especially when paired with access to financial products and services.



## Sustainability in disclosures and financial advice

- Current market practice
  - Lack of transparency about how financial firms integrate sustainability risks;
  - Greenwashing and misselling
  - **Risks not priced efficiently**
- Expected effect of EU legislative & regulatory reforms
  - Better incentives to manage sustainability risks
  - Refocusing wealth management and retail investor perspectives
  - Integrate adverse sustainability impacts into due diligence

**Goal: Mainstreaming sustainability into risk management and scaling up sustainable investments**



## EU legal framework (1)

- Labels and ratings that are trustworthy.
- Information: ***Transparency & Comparability***
  - Disclosure Regulation 2019/2088 & Taxonomy Regulation 2020/852
  - PRIIPs/PEPP KID/prospectus
  - NFRD
- Including sustainability in MiFID and IDD COB-rules
  - Conflicts of interest regime
  - Product Governance Regime
  - Suitability rules
- Sustainable Finance Action Plan: *“(b)y providing advice, investment firms and insurance distributors can play a central role in reorienting the financial system towards sustainability.”*



## EU legal framework (2)

- EU Suitability Assessment:
  - Financial situation
  - Knowledge and experience
  - Investment objectives
- ESMA guidelines – update May 2018:
  - *‘it would be a good practice for firms to consider non-financial elements when gathering information on the client’s investment objectives, and [...] collect information on the client’s preferences on environmental, social and governance factors.*
- Revised MiFID Delegated Regulation 2017/565 / IDD Delegated Regulation 2017/2359
  - Information on “investment objectives” should include information on sustainability preferences
  - Adequate policies and procedures to understand sustainability factors of financial instruments selected for clients
  - Suitability report should state how the advice meets the client’s sustainability preferences



# Environmental Social Governance (ESG) Disclosures at the Entity Level

- **Subjected entities**
  - Financial market participants → *in their manufacturing process*
  - Financial advisers → *in their investment advice or insurance advice*
- **Disclosures on their websites about their policies on the integration of “sustainability risks”**
- **Transparency on their websites of principal adverse impacts of investment decisions on “sustainability factors”**
  - “Comply or Explain” approach



# ESG Disclosures at the Product Level

- **Classification of financial products**
  - Products pursuing sustainable investment objectives
  - Products promoting environmental or social characteristics
  - Mainstream products
- **Provision of sustainability-related information**
  - *Pre-contractual transparency*
  - *ESG disclosures on websites*
  - *ESG disclosures in periodic reports*



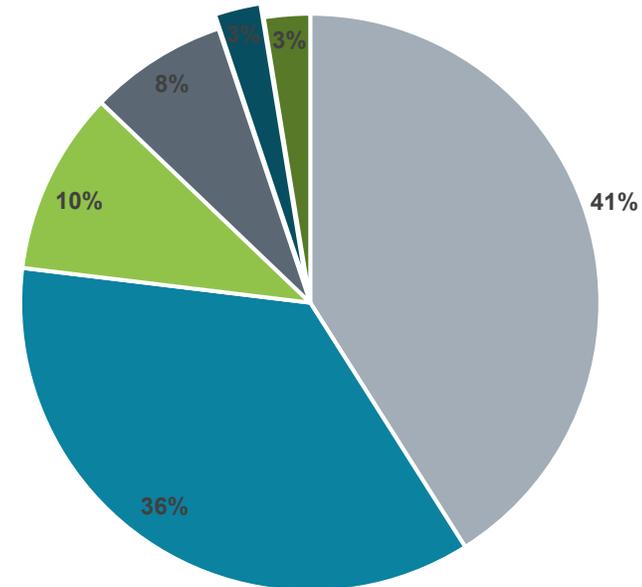
## Adequate disclosure and due diligence

- Importance of disclosure requirements as a key step in the sustainability process
- Challenges
  - Classification, standardization and comparability
  - Data quality, data management, data analytics
  - Harmonization and implementation
- Know your customers' preferences, attitudes, capabilities & objectives
  - Providing customers with minimum information – what type of information?
  - The Role of Surveys to understand professional/private & retail customers
  - Professor Alexander's comprehensive survey of UBS AG's Swiss customers



## Who participated in the survey: Asset owners

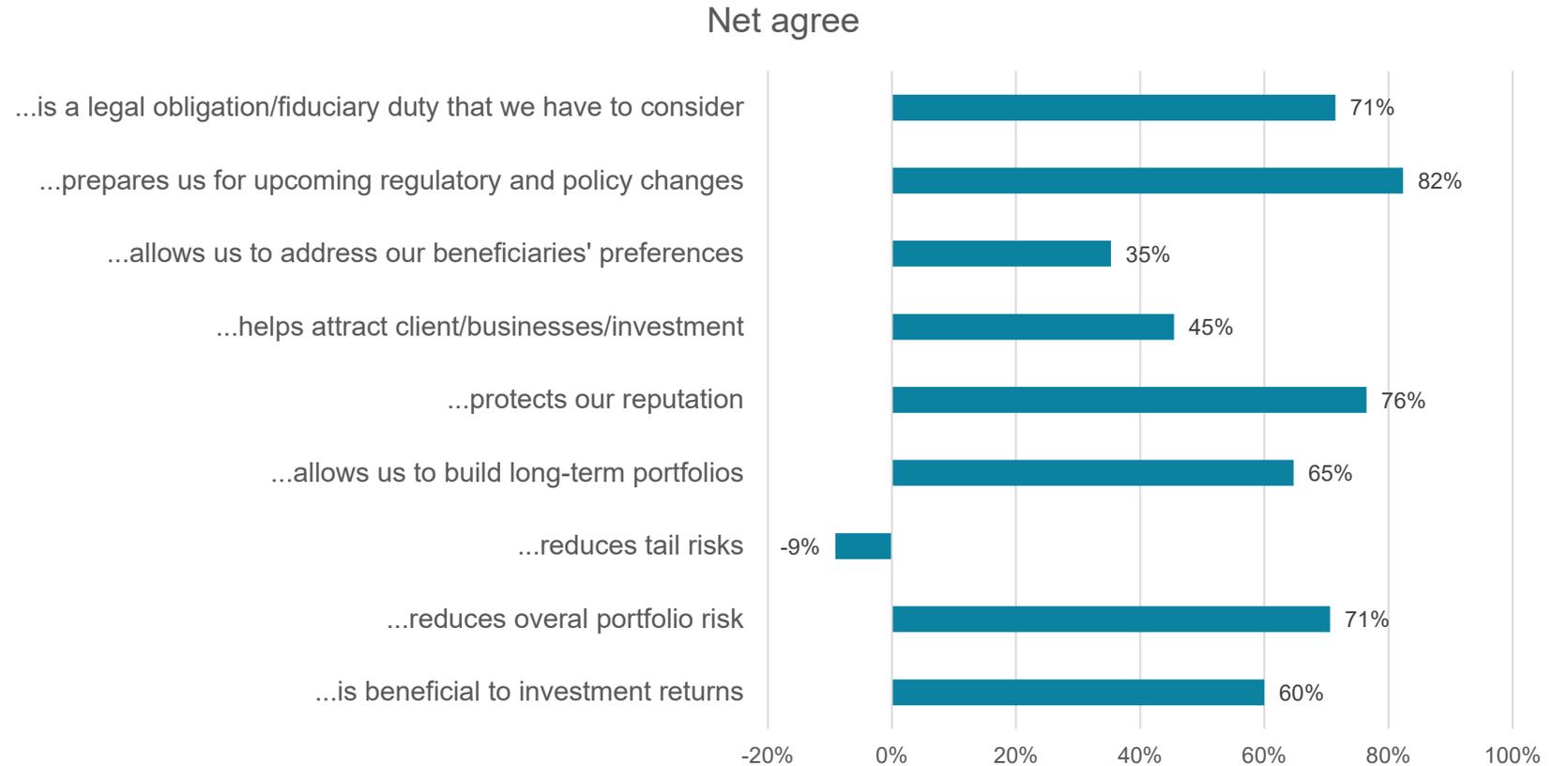
- Private pension fund (**41%**)
- Public pension fund (**36%**)
- Foundation (**10%**)
- Insurance company (**8%**)
- Private bank (**3%**)
- Individuals/Other (**3%**)



■ Private pension fund ■ Public pension fund ■ Foundation  
■ Insurance company ■ Private Bank ■ Other



## Motivations for considering ESG in investment strategy





## Major obstacles to ESG/Sustainability according to respondents

1. Inadequate certification of sustainable assets (**44%**)
2. Insufficient disclosure about the risks of sustainable investing (**41%**)
3. Lack of adequate passive sustainable investment approaches (**36%**)
4. Insufficient information about sustainable investing offered (**33%**)
5. Sustainable assets are not transparent enough (**28%**)



## Know your customer's sustainable finance preferences, capabilities, and objectives

- Relationship managers & product advisers should provide minimum information to customers
- Interactive surveys can inform firms and advisers about what information customers need based on their financial capability
- This enhances the suitability assessment process and improves the financial awareness and literacy of customers
- University of Zurich research team works with banks, investment funds and pension schemes concerning how they think about their ESG strategy, along with its engagement, communication and disclosures to customers and members.

An aerial photograph of a dense, lush green forest. The trees are packed closely together, creating a vibrant, textured canopy of various shades of green. The lighting is bright, highlighting the individual needles and branches of the trees. In the center of the image, the words "THANK YOU" are written in a large, white, serif font, standing out prominently against the green background.

THANK YOU



**University of  
Zurich** <sup>UZH</sup>

**Institute of Law**

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