FACTSHEET

How to make sustainable finance real for consumers?

Consumers are increasingly interested in buying financial products that contribute to a more sustainable world. While a growing number of financial institutions integrate sustainability matters in their daily activities, consumers often still face an uphill battle when deciding on the best way to invest sustainably. The European Commission's recently agreed Taxonomy Regulation will give consumers a better understanding of how sustainable their investments are and help to combat greenwashing. However, the urgency of the climate crisis means that further steps still need to be taken. We therefore have high expectations for the planned Sustainable Finance Strategy.[1]

How can the EU help consumers to invest sustainably when seeking financial advice?

Consumers often rely on advice when making financial decisions, such as taking out an investment fund, a life insurance policy, or a pension product. BEUC believes that consumers need access to trustworthy and independent financial advice[2] that considers their environmental, social and governance (ESG) preferences. The European Commission should urgently adopt recently proposed rules requiring advisers to assess the ESG preferences of their clients under the Insurance Distribution Directive (IDD) and MiFID II. But further steps are still needed to ensure that consumers' ESG preferences are taken into account:

- **Financial advisers should be adequately trained and knowledgeable about sustainability matters to be able to give good advice on ESG products**. The European Commission has already committed in its Action Plan on the Capital Markets Union[3] to improving the level of professional qualifications for advisers in the EU. ESG training should be mandatory for all advisers under the IDD and MiFID II.
- **ESG products should be offered to consumers as the default retail option when they seek financial advice**. For the climate transition to succeed, consumer needs to be brought on board. Their choices and changing investment decisions can help to support a more sustainable economy. For this reason, a supportive framework must be developed and investing sustainably must become the 'easy choice' (and offered by default) for consumers when investing their money. For instance, in future, ESG investments should be offered by default to consumers when choosing to invest in the default option (the Basic PEPP) of the new pan-European Pension Product.
- **The European Supervisory Authorities (ESAs) should be required to develop guidance and/or template questionnaires to assist advisers in adequately assessing the ESG preferences of clients.** Guidance to advisers could help them to assess whether clients favour certain types of investment strategies over others (for instance, strategies focused on 'negative screening' of certain companies or 'shareholder engagement strategies' where fund managers pressure companies to change their ESG practices).
- **Requiring banks to offer a variety of financing options and affordable well-designed green loans** to consumers to help them to make their homes more energy efficient. Consumers often still struggle with the upfront installation costs associated with renewable technologies or renovations, and an Altroconsumo investigation[4] found that banks often currently do not propose green loans to consumers or attach onerous conditions.

[1] For BEUC's full recommendations, please read our consultation response on the Renewed Sustainable Finance Strategy, https://www.beuc.eu/publications/beuc-x-2020-069_consultation_on_the_renewed_sustainable_financial_strategy.pdf
[2] BEUC, The Price of Bad Advice, https://www.thepriceofbadadvice.eu/.
[3] European Commission, 'A capital markets union for people and business: new action plan', https://ec.europa.eu/info/publications/200924-capital-markets-union-action-plan_en.
[4] Altroconsumo, 'Green mortgages and loans survey: most institutions do not offer them', https://www.altroconsumo.it/organizzazione/media-e-press/comunicati/2020/inchiesta-mutui-e-prestiti-green.

BEUC The European Consumer Organisation

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What do consumers (increasingly) want?

In 2020, Which? carried out a survey[5] with consumers about ethical investing practices, shedding light on what consumers want when taking out sustainable investment products. The research found that: (a) 50% believe the use of ethical investing terms should be regulated; (b) 47% want investment companies to use the same definitions of ethical investing; (c) 42% expect fund managers to put pressure on companies and; (d) 52% believe that investment funds should reveal what they are invested in.

Can consumers make money by investing sustainably?

There is a common misconception that investing by your values might feel good, but that it could ultimately come at the expense of returns. A study[6] by the Lithuanian Alliance of Consumer Organisations (ALCO) found that 41% of Lithuanian consumers would forego ESG investments if it meant sacrificing returns. Yet recent studies[7] show that ESG products can outperform, or at the very least match, the performance of traditional alternatives. Consumers need a clearer picture of the returns they could make when investing sustainably. The European Commission should mandate the European Supervisory Authorities to assess the cost and performance of ESG products versus their traditional counterparts.

What do consumers need to better understand the impact of their money?

Consumers are often left in the dark when they entrust their money to financial institutions, such as banks, insurers, and asset managers. Further steps are needed to enhance transparency for consumers:

1. **A REQUIREMENT FOR ALL FINANCIAL SERVICES PRODUCTS TO DISCLOSE IN A CLEAR, STANDARDISED WAY HOW SUSTAINABLE THEY ARE.** All investment products, saving accounts, pension products and life insurance policies should disclose based on a colour rating system how sustainable they are, similar to the already well-known energy label, where a sold Green A is the most sustainable, and a red G the least sustainable.
2. **PROVIDING FUNDING FOR INITIATIVES TO HELP CONSUMERS TO COMPARE THE SUSTAINABILITY PRACTICES OF FINANCIAL INSTITUTIONS.** The Fair Finance Guide[8] is an example of a project implemented in several EU countries that promotes consumer awareness by ranking financial institutions according to their sustainability criteria. The European Commission should consider extending support for such initiatives.
3. **THE ADOPTION OF AN AMBITIOUS EU ECOLABEL FOR RETAIL FINANCIAL SERVICES,** with a majority of the underlying investments financing sustainable activities and strict exclusions of activities which are harmful to the environment and society.
4. **THE DEVELOPMENT OF AN 'UNSUSTAINABLE' TAXONOMY OF ECONOMIC ACTIVITIES THAT NEGATIVELY IMPACT THE CLIMATE AND THE ENVIRONMENT,** making it easier for consumers to reduce their exposure to investments that could harm the environment and which can lead to investment risks in the long term (due to stranded assets). The EU should also develop a 'social' taxonomy of economic activities that have a positive impact on social cohesion.
5. **THE DEVELOPMENT OF A ROBUST NON-FINANCIAL REPORTING FRAMEWORK** to help investors and in turn consumers understand how companies approach sustainability issues.
6. **MANDATORY DUE DILIGENCE REQUIREMENTS FOR COMPANIES,** obliging them to identify, assess and prevent any harmful impact their activities may have on the environment and/or on human rights.

[5] Which?, 'Is Ethical investing just too difficult?', https://www.which.co.uk/news/2020/08/is-ethical-investing-just-too-difficult/
[6] ALCO, 'Population Survey on the use of investments', http://www.lvoa.lt/images/default/source/documents/TFSG_resources/EN_ESG_Investing_Lithuania_2019Oct.pdf, p. 14.
[7] International Monetary Fund, 'Sustainable Finance – Looking farther', https://www.imf.org/~/media/Files/Publications/GFSR/2019/October/English/ch6.ashx
[8] Fair Finance Guide, https://fairfinanceguide.org/ff-international/about-us/.