Insights from French consumer surveys on ESG funds

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Executive Summary

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Consumer surveys commissioned by France's financial markets regulator found that when selecting ESG funds, consumers have difficulty comprehending sustainability-related disclosures on their own. The surveys' findings imply that expert advice and certification marks have a big role to play in the ESG fund space. The findings are applicable even to Japan as it lays the regulatory groundwork to ensure consumers can invest in ESG funds with confidence.

ESG funds have had been rapidly capturing mindshare in the investment trust market over the past few years. Funds focused on ESG or sustainable development issues are expected to expand the investment trust market given their potential appeal to certain demographics otherwise uninterested in investing. Meanwhile, regulators are grappling with how to ensure transparency sufficient to enable retail investors to appropriately select ESG funds amid strong concerns about funds embracing ESG in name only.

Europe is a leader in adopting safeguards against greenwashing in the asset management industry. France in particular has taken a lot of action on this front even before the EU did. Most notably, it requires asset management companies to disclose ESG criteria and climate change risks and has set up an ESG fund certification program that awards a certification mark (label) to qualified funds.

To shed light on how French consumers feel about such matters, we look at an ESG fund study released last September by the AMF, France's financial markets regulator. The study included both questionnaire and interview surveys. The questionnaire inquired about consumers' awareness and understanding of ESG funds; the interview survey largely asked 15 ordinary investors about their impressions and comprehension of selected ESG funds' disclosures[1]. Below we consider the study's lessons for Japan, focusing on (1) sustainability-related disclosures, (2) the role of advisors and (3) certification labels.

NOTE
1) The questionnaire and interview surveys' findings were respectively published in *The French and Responsible Investment Products* (OpinionWay) and *Legibility Study of Sustainable and Responsible Investment Documentation* (CSA Institute) in June 2021. The former had a 2,074-person sample representative of the French population; the latter was an online free-response survey with 15 participants.

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French consumers' reliance on sustainability disclosures is limited

First, the questionnaire asked respondents who own ESG funds (17% of all respondents) how they use the funds' disclosure documents. Those who read the funds' Key Investor Information Documents (KIID) and prospectuses respectively accounted for a relatively high 40% and 34% of the ESG fund-owning respondents, but less than 25% of the same respondents reported reading the more detailed sustainability-related documents such as non-financial/CSR reports, engagement/voting policies and Article 173 reports[2].

The interview survey's participants were tasked with reading sustainability-related information from ESG funds' disclosure documents and giving feedback. They found KIIDs to be short but difficult to read and understand. They found prospectuses to be more educational than KIIDs but most of the respondents had difficulty reading prospectuses also. Article 173 reports, by contrast, elicited positive feedback, including that their content (e.g., SRI approach, ESG criteria) provides important guidance to investors and educates readers with glossaries and multiple levels of analysis.

Although Article 173 reports are not commonly used as sources of sustainability-related information, they were better received by the interview survey participants than the more heavily used KIIDs and prospectuses[3]. While detailed sustainability-related disclosure documents may be of value to avid ESG investors, those who take the initiative to utilize them seem to be in the minority.

Expected roles of expert advice and certification labels

Next, regarding the role played by advisors when retail investors select ESG funds, 65% of the questionnaire survey's respondents said it is important for banks and financial advisors to ask customers about their interest in investing in ESG funds but only 10% reported having actually been asked about their ESG preferences. While many consumers expect advisors to be involved in their ESG fund investments, the survey results suggest that advisor engagement on ESG is currently limited.

In the EU, financial product dealers will be required to factor customers'

2) Article 173 reports are disclosures related to climate change risk and ESG matters in compliance with Article 173 of France's 2015 Energy Transition Law.

3) Under the EU's Sustainable Finance Disclosures Regulation's (SFDR), the second phase of which (detailed standards) is scheduled to take effect from January 2023, templates that include tables and icons have been developed for disclosures in ESG funds' prospectuses and annual reports, but advance consumer tests found the templates to be insufficiently comprehensible to the laypersons. Even the regulatory authority that created the templates admitted they contain information too complex for retail investors.

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sustainability-related preferences into suitability assessments from August 2022. This requirement will impose a big burden on advisors but given consumers' difficulties utilizing sustainability disclosures, it may be an opportunity for advisors to add more value by offering advice that takes the customer's sustainability preferences into account. Last year, France's AMF established a new sustainable finance certification in addition to increasing sustainable finance's share of the questions on general licensing exams for investment services providers and financial advisors' customer-facing personnel. The AMF's increased emphasis on sustainable finance should help such personnel better meet consumers' needs.

Lastly, we look at labels that certify that ESG funds meet certain standards. France has two such official labels: the SRI Label and Greenfin Label. The SRI Label signifies that a financial product contributes to the advancement of socially responsible investing. The Greenfin Label signifies that a financial product promotes the transition to a green economy.

Of the questionnaire survey respondents, 26% and 20% reported having heard of the SRI Label and Greenfin Label, respectively. When asked whether they trust these labels to fulfill their intended function, only 31% responded affirmatively for the SRI Label and 29% for the Greenfin Label. Despite being over five years old, neither label has much name recognition or public trust. The interview survey's participants felt that (1) a certification label's logo displayed on the product pages of a financial institution's website indicates that the financial institution is serious and has complied with a set of specifications and (2) labels accompanied by links to government websites, even if not clicked, attest to the legitimacy of the label and, in turn, the product. Although the certification labels themselves do not have much name recognition, the interview survey's findings suggest that if a label's logo is present, consumers may be inclined to select the labeled fund in reliance on the label[4].

4) Such a view is corroborated by the results of consumer tests of the UK Financial Conduct Authority's ESG impact medals' logo, unveiled in 2021. The tests' participants were asked to choose between two funds based on the content of mock factsheets. The objective, prominently displayed medals were found to have an impact on the participants' decisions whereas the factsheets' content regarding the funds' sustainability profiles and strategies was not.

In sum, the AMF surveys of French consumers found that (1) sustainability-related disclosures are quite difficult for many consumers to use, (2) consumers expect advisors to help them select products aligned with their sustainability preferences, and (3) simple features like public certification labels may facilitate consumers' product selection decisions.

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Even in Japan, the FSA is committed to improving ESG funds' sustainability-related disclosures in accord with its Principles for Customer-Oriented Business Conduct[5]. However, in light of the considerable effort required for consumers to gather, compare and assess disclosed information, there is substantial scope for advisors to play an active role as consultants on sustainability matters and/or for things like certification labels to help consumers select products more easily.

5) The FSA's Expectations for Asset Management Companies Offering ESG Funds, released in May 2022 as a part of its 2022 Progress Report on Enhancing the Asset Management Business, also includes content intended to promote appropriate information disclosure based on the results of surveys of asset management companies.

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