Assist investors in finding sustainable investment opportunities

In brief Financial undertakings must provide investors with better guidance toward sustainable investment choices. This matters as sustainability emerges as a priority for about half of investors. Product Oversight & Governance (POG) and the suitability assessment serve as the foundation for an appropriate product range, for properly identifying investors' sustainability preferences and for matching supply and demand. While this can be complex forfinancial undertakings, it facilitates investors in choosing investments that support the transition to a more sustainable economy.

Summary

Self-assessments have given the AFM an initial insight into the extent to which investment firms and life insurers have integrated sustainability requirements into their product oversight & governance (POG)[1] and suitability assessment[2]. It shows that many parties are already actively incorporating sustainability into their policies and products. At the same time, there is significant scope for further steps to be taken.

According to the AFM Consumer Monitor, about half of investors prioritise the sustainability of their investments. POG and the suitability assessment serve as the foundation for an appropriate product range, for properly identifying investors' sustainability preferences and for matching supply and demand. This allows investors who wish to do so to support the transition to a more sustainable economy through their investments. Below we set out what actions the sector is already taking and what further steps the AFM expects. In this overview, the AFM focuses on what it considers to be the most important and pressing topics.

Use understandable language and align with investors' perceptions

Nearly all investment firms say they provide clients with information on sustainability when performing the suitability assessment. This a positive outcome. Yet these firms could do more to make the information they provide clearer and more comprehensible and ensure it aligns with investors' perceptions. This would enhance their ability to identify and understand investors' sustainability preferences. This is especially applicable to the small group of investment firms that say they do not provide any, or no additional, information on sustainability.

By way of context, two-thirds of investment firms estimate that no more than 10% of investors currently specify sustainability preferences. That is a major difference compared to the AFM Consumer Monitor, in which about half of investors reported they prioritise sustainability. One significant factor could be the complexity of the information on sustainability in the suitability assessment, which sees clients opting not to specify any sustainability preferences.

The AFM therefore expects investment firms to improve the information they provide on sustainability. This can be achieved by providing explanatory information in advance, for example, and by checking whether that information is clear and comprehensible.

Collect sustainability preferences with careful attention and thoroughness

Besides considering the wording they use, investment firms should pay greater attention to investors' specific sustainability preferences. They need to collect carefully and thoroughly about the details of the specific sustainability preferences, such as the minimum percentage to be invested sustainably or the most important adverse impacts to take into consideration. Despite being legally mandated, this occurs too little at the moment.

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[1]For investment firms: Article 32b of the Decree on Conduct of Business Supervision of Financial Undertakings under the Wft (Besluit Gedragtoegtoezicht Financiële ondernemingen Wft). For life insurers: Delegated Regulation (EU) 2017/2358.

[2] Delegated Regulation (EU) 2017/565.

For example, 15% of investment firms do not ask their investors to specify their sustainability preferences. About half of the investment firms that do ask about specific sustainability preferences do not offer their investors the option of specifying a minimum percentage or the adverse impacts most important to them. As a result, these investment firms lack sufficient insight into investors' sustainability preferences.

Careful and thorough questioning is important as it serves as the basis for determining the suitability of an investment and preventing any mis-match. The AFM therefore expects these investment firms to align the questions they ask with legislative demands and pay greater attention to the specific sustainability preferences of their clients.

Integrate sustainability factors into POG policies

The self-assessment shows that most investment firms and life insurers have expanded their POG policies to include sustainability factors. They describe the sustainability objectives of the target market, for example by using ESG criteria or other sustainable characteristics of investments so that the sustainability characteristics of the product align with the target market. The AFM expects firms that have yet to align their POG policies with the sustainability factors to take the necessary corrective action.

Evaluate the product range for sustainability and avoid any mis-match

The AFM expects firms to evaluate their product range for sustainability characteristics and to make any necessary changes. Two-thirds of investment firms already do this. Including sustainability characteristics can trigger adjustment of the target market, among other things. This also applies to the negative target market, as products without sustainability characteristics may not be sold to investors who are interested in sustainable investments. However, fewer than half the investment firms report having policies in place that prevent such a mis-match. The AFM emphasises the need for close attention to this.

Next steps

The AFM calls on the sector to embed sustainability requirements in their POG policies and to make the topic of sustainability more thorough and easier to understand in the suitability assessment. In this way, firms will assist investors to support the transition to a sustainable economy, while also ensuring that the sector enhances its impact even further in driving the sustainability transition. Firms can do this by means of their self-assessment and the guidance provided in this report.

The AFM has not at this stage independently assessed the accuracy of the responses given, nor has it examined their quality or implementation. This will be undertaken later in the year, when the AFM plans to conduct a more in-depth survey of a sample of investment firms with a view to compliance with the sustainability requirements in POG and the suitability assessment. This survey is part of a Common Supervisory Action (CSA) coordinated by ESMA.