SUPERVISION

VISUAL SUMMARY

Assist investors in finding sustainable investment opportunities

In brief Financial undertakings must provide investors with better guidance towards 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 for undertakings, it facilitates investors in choosing investments that support the transition to a more sustainable economy.

About **half** of investors prioritise sustainability. Financial undertakings must provide them with better guidance towards **sustainable investment choices.**

The Product Oversight & Governance (POG) and the **suitability assessment** are intended to ensure that investors have better access to products consistent with their sustainability ambitions.

Product Oversight and Governance (POG)

Suitability assessment

Our key points:

1. **Integrate sustainability factors** in POG policies.
2. **Evaluate** the product range and **avoid a mismatch**.
3. Use **understandable language** and align with investors' **perceptions**.
4. Collect sustainability preferences **with careful attention and thoroughness.**

Contents

AFM

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].
They show 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 improve 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 the details of the specific sustainability preferences, such as the minimum percentage to be invested sustainably or the Principal Adverse Indicators to take into consideration. Despite being legally mandated, this occurs too little at the moment.

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 indicators most important to them.
As a result, these investment firms lack sufficient insight into investors' sustainability preferences.

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.

Diligent questioning is important as it serves as the basis for determining the suitability of an investment and preventing any mismatch. 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 actions.

Evaluate the product range for sustainability and avoid any mismatch

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 mismatch. 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. Firms will then support investors in their contribution to 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.

1. General

The existing POG and suitability standards for investment firms and insurers were expanded as of 2022 to promote the sustainability transition. Sustainability factors since form part of the POG and the suitability assessment to ensure that investors have better access to products that are aligned with their sustainability objectives. This will help investors to use their investments to contribute to a sustainable society.

1.1 Expansion of POG and suitability standards to promote the sustainability transition

Investment firms and insurers, including intermediary insurers, are required to take sustainability into account in the development and distribution of financial products. Investment firms and insurance-linked investment advisers[3] must also take the investors' sustainability preferences into account when conducting the suitability assessment. This will help investors to have better access to products that are aligned with their sustainability objectives. The Guidelines of the European Securities and Markets Authority (ESMA) on POG and the suitability assessment were amended per 3 October 2023.

1.2 Scope of the review

The AFM conducted a self-assessment among 114 investment firms and nine life insurers on compliance with the sustainability requirements in POG. Additionally, the AFM conducted a self-assessment among 97 investment firms on compliance with the sustainability requirements in the suitability assessment. This is the first time that the AFM conducted a survey of compliance with these sustainability requirements.

The review shows the areas in which firms are already well on track and the areas that need improvement. The self-assessment also offers firms insight into their individual status in terms of compliance and the steps they still need to take to give investors better access to a product range that is aligned with their sustainability objectives.

The outcomes of this report are based on firms' self-assessments. This means that the AFM has not independently assessed the accuracy of the responses given. Moreover, the self-assessment particularly focused on the existence of policies and processes.
The outcome does not provide any insight into to quality or performance thereof.

Chapter 4 provides more information on the review methodology.

1.3 Next steps

This review shows that most investment firms and life insurers have already taken steps in feeding the sustainability requirements into their POG and suitability assessment. The AFM expects investment firms and life insurers to use the findings of this report to further improve their POG and/or suitability assessment where relevant.

In 2024, ESMA announced a Common Supervisory Action (CSA) into the integration of sustainability requirements in respect of POG and the suitability assessment for investment firms. A CSA means that European national supervisory authorities will simultaneously carry out a review on the same subject. The AFM is one of the participating national supervisory authorities of this CSA.

3 Article 2(17) of Directive (EU) 2016/97.

Later this year, the AFM will select a number of investment firms for this review. The CSA will allow the AFM to focus more closely on compliance with the sustainability requirements than in the present review.

1.4 Structure of the report

Chapter 2.1 illustrates the market view of investment firms. Chapter 2.2 describes the extent to which investment firms have included sustainability in POG, while Chapter 2.3 describes this in terms of the suitability assessment. Chapter 3.1 provides a market view of life insurers. Chapter 3.2 shows the extent to which life insurers have incorporated sustainability in POG. In conclusion, Chapter 4 describes how the review was conducted.

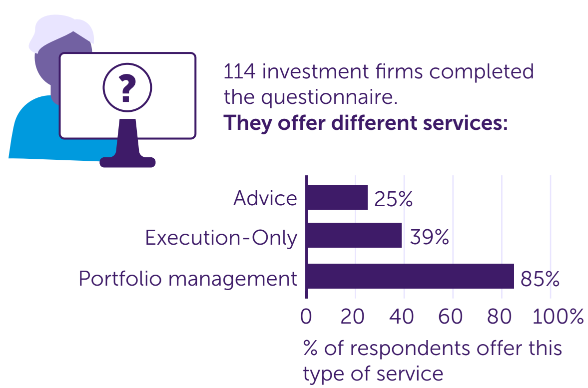
2. Investment firms

Most investment firms have taken steps in integrating sustainability in their POG policies and in the implementation of the suitability assessment. Still, there is much room for improvement. For example, more investment firms need to evaluate their product range and adjust it where necessary. Also, the definition of the negative target market, to which target market should not be sold, remains inadequate, as products without sustainability characteristics may not be sold to investors who aim for sustainable investment opportunities.

Additionally, investment firms should pay more attention to making sustainability more clearer and more comprehensible in the suitability assessment. This may create increasing interest – and more trade – among investors in sustainable investments.

2.1 Market view

Figure 1. Service provision by 114 investment firms[4]



4 Investment firms may offer multiple services, which is why the percentages add up to more than 100%.

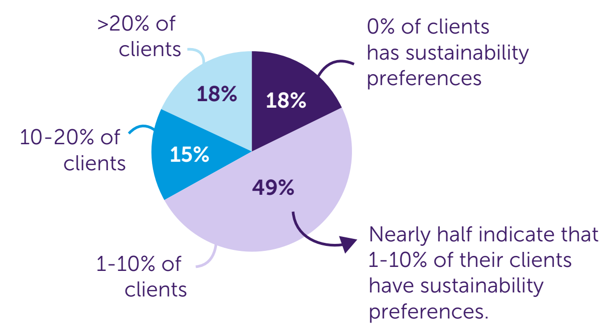
Sustainability preferences

In the self-assessment, investment firms estimated the percentage of their client portfolio indicating sustainability preferences as part of the suitability assessment.

Figure 2. Sustainability preferences of clients

Most investment firms indicate that only **few clients** have sustainability preferences. That is a **major difference** compared to the AFM Consumer Monitor, in which about half of investors reported that they do in fact prioritise sustainability. One possible factor may be the **complexity** of the information on sustainability in the suitability assessment, which sees clients opting not to specify any sustainability preferences.

The number of clients having sustainability preferences, **according to investment firms**:

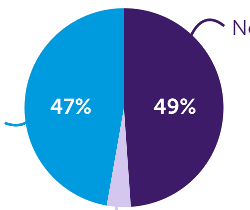


Investment firms mostly offer the following explanations: clients lack a profound interest in the sustainability element, clients do not understand what is expected of them, the use of language is too technical or fails to align with clients' perceptions.

Product range

In its SFDR review, the AFM inquired from the investment firms that issue portfolio management (portfolio managers) about the sustainability of asset management portfolios. These portfolio managers collectively offer 233 asset management portfolios (products). Just over half of these products report on sustainability.

Figure 3: Product distribution among portfolio managers



2.2 To what extent do investment firms include sustainability in their product distribution?

The self-assessment on the inclusion of sustainability in the product distribution was completed by 114 investment firms. It shows that most investment firms have a POG policy set in place to include sustainability objectives. The manner in which investment firms interpret this differs. More than two thirds of the firms have evaluated or partly evaluated the product range for integration of sustainability. More than half of investment firms have policies in place to include sustainability in the negative target market of products that lack sustainability characteristics.

2.2.1 More than half of them have policies in place to establish the sustainability objectives of the target market

Investment firms' policies must include the ways in which firms integrate the target market's sustainability objectives in the product distribution. The sustainable characteristics of a product have to align with the target market's sustainability objectives. For such alignment, investment firms can make use of the updated MiFiD II POG Guidelines. These Guidelines explain, among other things, the ways in which the target market's sustainability objectives can be determined.

More than half (59%) of investment firms have policies in place to determine the sustainability objectives of the target market. The main focus in determining the target market's sustainability objectives is on the objectives in the area of Environment, Social and/or Governance (ESG). The EU Taxonomy is used least in terms of determining the sustainability objectives. Other methods mentioned include the use of Principal Adverse Indicators (PAIs).

It is important that the sustainability objectives of the target market are sufficiently detailed (granular). See the practical example below. A target market description such as 'investors with a sustainability profile', for example, is not very specific and thus only contributes to a limited extent to the target market identification.[5]

5 Incidentally, when defining the target market, it continues to be important to consider all five target market categories in context. The five target market categories in this respect are type of investor, required knowledge and experience, risk profile, financial situation and financial or sustainability objectives, as further elaborated in the POG Guidelines.

Practical example:
A distributor shows the target market of a fund in the execution-only environment. The fund invests in companies active in raw material extraction. The developer has not classified the fund as a product with sustainability characteristics and does not provide any information as referred to in Article 8 or 9 of the SFDR.

In the area of sustainability, the distributor has formulated the fund's target market as 'I do not aim to fully invest in sustainability'. This formulation is unclear and not very specific. The formulation may create the impression that the fund partially invests sustainably. As a result, the product may end up with clients that aim to exclusively invest in products with sustainability characteristics.

Sustainable investment products may match both investors who want to invest in a sustainable manner and investors without such an objective. Conversely, investment products without sustainable characteristics do not align with a target market that values sustainable investing. These products may thus not be sold to investors with sustainability objectives.

Less than half (43%) of investment firms have policies in place to determine the negative target market for products that lack sustainable characteristics. Products may not be sold to the negative target market. The AFM expects that other investment firms also provide for this in their POG policies to ensure that clients are not provided with products that do not align with their sustainability objectives.

Use the policy to describe how sustainability objectives should be included in the target market. Make sure that the sustainability objectives of the target market are sufficiently detailed. Also set out in the policy how the negative target market for products lacking sustainable characteristics need to be established.

2.2.2 Most have formulated in policies how investors receive products in the execution-only channel that match their sustainability objectives

A company's distribution strategy has to ensure that products end up with the defined target market and are not (structurally) sold outside the target market. This will help investors to have access to products that are aligned with their objectives. When it comes to management and advice, the suitability assessment is the primary means to ensure this.

In Execution-Only (EO), the distributor lacks the option of inquiring after sustainability preferences. This makes it especially important for the information disclosure and the set-up of the online selection environment to be plain and intelligible and in order.

In the Execution-Only channel, almost three quarters (73%) of investment firms have policies in place on how the distribution strategy ensures that investors are provided those products that align with their sustainability objectives. This is usually done by showing the product information, and, to a lesser extent, by means of search filters or by showing the negative or positive target market. Some investment firms also use the knowledge and experience assessment for this.

The AFM encourages the use of such methods and observes that it is important to evaluate its effectiveness. Some parties that distribute products via the Execution-Only channel do indicate that they have a detailed distribution strategy to ensure that investors are provided with products that align with their sustainability objectives. They, however, also state that they do not apply any methods in their distribution strategy. The AFM urges these parties to exercise added scrutiny in terms of their distribution strategy.

Apply methods in the distribution strategy that ensure that clients are provided with products that match their sustainability objectives and assess this for effectiveness.

2.2.3 Three quarters of parties receive sustainability-related information from product developers

Firms largely depend on product developers for the information about the sustainability characteristics of the product in question. Proper information enables firms to check whether the product actually aligns with the sustainability objectives of the target market.

Three quarters (74%) of firms indicate that they sometimes or always receive information from the developer about the sustainable characteristics of the product and the sustainability objectives of the target market. The AFM calls on those parties that receive no or insufficient information from the developer to take action in order to receive this information about, or, if this proves impossible, to make use of other sources, such as specialised data suppliers.

It is important to analyse the sustainable characteristics of products in order to establish a better match between product and investor. SFDR information may help firms in better understanding certain products. This information is available on the developer's website.

Interviews with firms show that they often receive information from developers on the sustainable characteristics of products, among other things, via the European ESG Template (EET). The AFM welcomes the notion that parties indicate that they take a critical stance on content (such as the SFDR classification) and, if needed, enter into consultations with the developer to address any doubts.

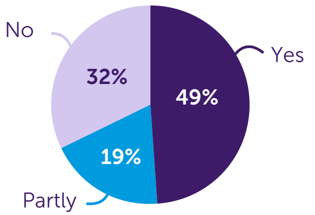
★ Ensure adequate, clearand understandable sustainability-related information from the product developer. Or seek other sources.

2.2.4 Majority evaluates the product range or part thereof in terms of sustainability

An amendment in the legal standard usually triggers a re-evaluation and adjustment, if needed, of the POG policy, the target market and the distribution strategy of products. This applies to both new and existing products.

Figure 4. Evaluation of product range

Has evaluated products according to the amended POG standard:



% of Respondents

Two-thirds of firms indicate that they have evaluated the products they distribute or part of these products following the amended POG standard. In about half of the evaluations, this led to adjustments to the target market definition or distribution of the product. The AFM expects all firms to evaluate the products and, where needed, to implement any changes in the target market and/or distribution.

★ Evaluate both new and existing products on sustainability in response to the amended POG standards and determine the changes that need to be made to the (negative) target market and/or distribution strategy.

2.3 To what extent do investment firms include sustainability in the suitability assessment?

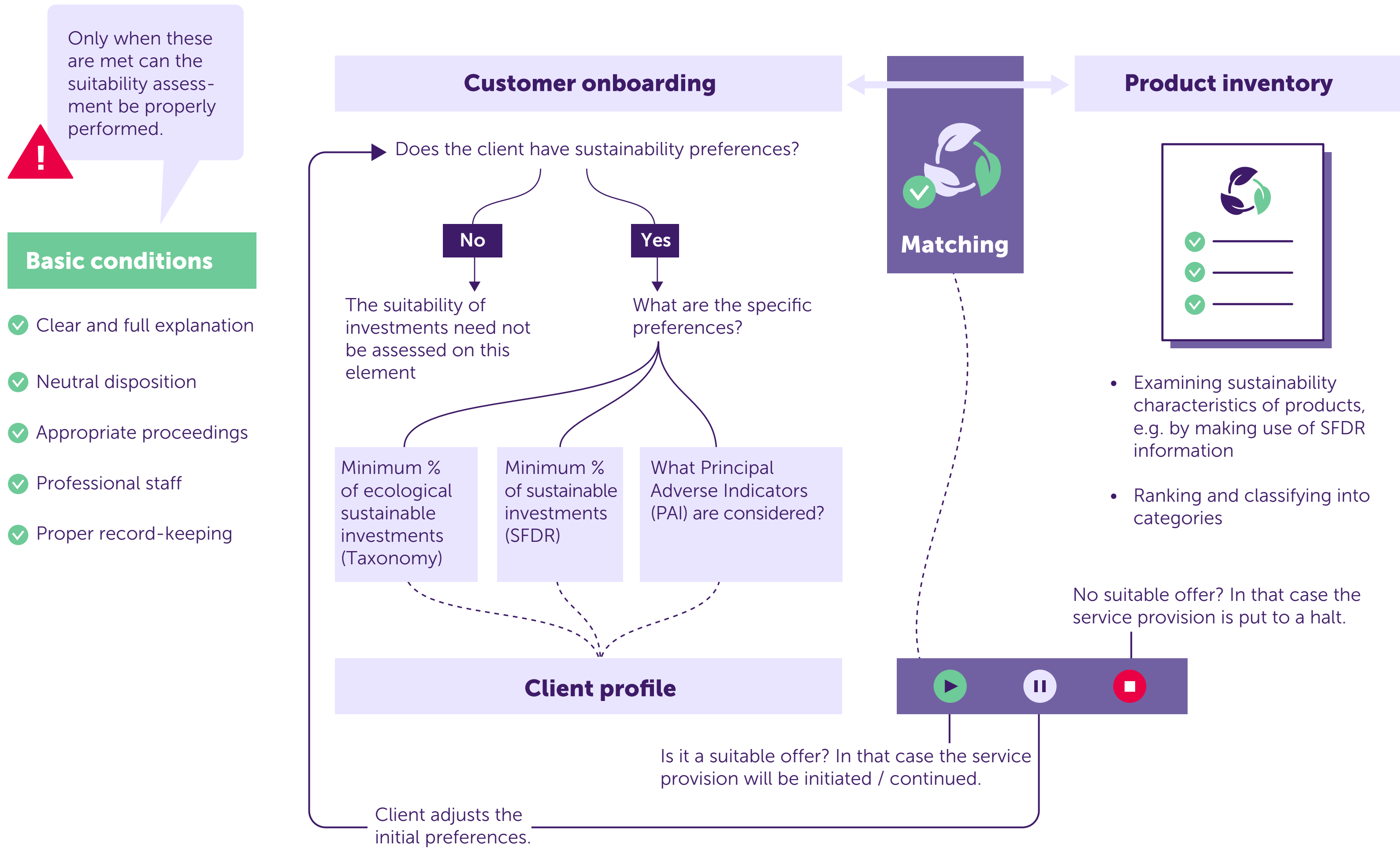


Figure 5. Suitability is a continuous requirement. Investment firms need to perform this assessment at the start of a new client relationship and need to repeat this assessment periodically for ongoing client relationships. The suitability assessment comprises several elements: the financial position, objectives, risk tolerance, knowledge and experience, and sustainability. This representation limits itself to the element of sustainability and includes a summary of the actions to be performed by investment firms to perform the suitability assessment among their clients.

Investment firms that provide services in terms of portfolio management and/or advice have to gain information about client's sustainability preferences and, partly on the basis of this, compile or recommend a suitable portfolio. The sustainability requirements apply to both new and current clients.

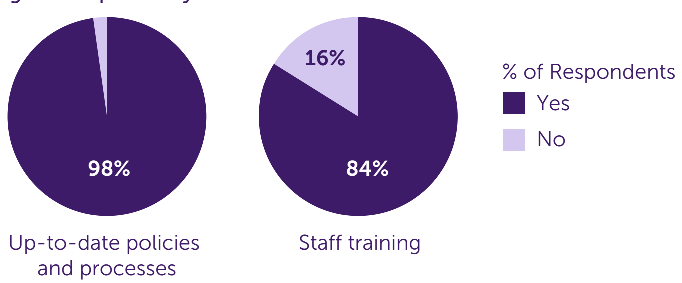
The review shows that most investment firms ask their clients about their sustainability preferences and factor these preferences into the selection of products. That said, the questions need to be asked more diligently. In addition, investment firms need to simplify their explanations on sustainability and make them more consistent with clients' perceptions, to avoid them from pulling out.

A total of 97 investment firms completed the self-assessment on the suitability assessment. The self-assessment consists of separate questions on individual portfolio management and on advice. The responses given about both types of service provision are virtually identical. The outcomes presented below pertain to the suitability assessment at individual portfolio management, but may also be taken as outcomes that pertain to the suitability assessment in case of advice.

2.3.1 Most investment firms update their policies and processes

Necessary conditions for an adequate suitability assessment refer to updated policies and proceedings for the suitability assessment and staff equipped with the required knowledge and ability. This allows them to properly extract sustainability preferences and clearly explain the various sustainability aspects to customers.

Figure 6. Updates by investment firms



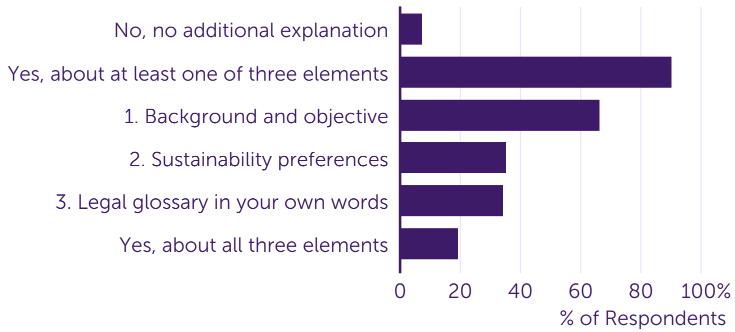
The AFM welcomes the fact that most investment firms have already embarked on their policies and processes and on training their staff. Updated policies and processes are necessary prerequisites for adequate suitability assessments, including in the area of sustainability. The same applies to knowledge and ability of staff. This allows them to properly extract sustainability preferences and clearly explain the various sustainability aspects to customers. To arrive at this, investment firms make use of in-house training courses, e-learning and/or external training courses.

> Ensure up-to-date policies and processes with regard to the suitability assessment. Make sure that staff is equipped with the required knowledge and ability to properly perform the suitability assessment on the sustainability element.

2.3.2 Many parties provide explanations on sustainability, however, these explanations must be improved and made more comprehensible

It is important that investment firms give their clients a clear and comprehensive explanation about the importance and contents of the suitability assessment, including the sustainability element. It allows them to make an informed decision and to provide correct information about their sustainability preferences. Unclear explanations may cause clients aiming to invest sustainably to opt out and decide not to specify their preferences, which may in turn create a mismatch between the investment firm's service provision and the actual sustainability preferences of clients. Investment firms therefore need to explain the background and purpose of the suitability assessments. They also need to clarify the distinction between the legally prescribed categories of sustainability preferences and, moreover, explain the various terms and sustainability concepts in a clear manner. Use of technical language must be avoided.

Figure 7. Explanation about the sustainability element



It appears that most firms provide some explanations about the element of sustainability in the suitability assessment. However, few investment firms explain all three compulsory elements, i.e. objective/scope, the sustainability preferences and terminology. This would explain the relatively low percentage of clients that specify their preferences (0-10%) according to investment firms. Investment firms also recognise that clients often fail to understand what is expected of them when asked about their sustainability preferences and that the use of language is too technical.

The AFM understands that regulations and the complexity of the subject matter pose a challenge to investment firms. However, this does not detract from the fact that these firms must make maximum effort to make the information they provide clearer and more comprehensible and ensure that it aligns with investors' perceptions. Obviously, customers can also indicate that they have no sustainability preferences, however, this should be a deliberate decision based on a clear explanation. It is important to also assess the intelligibility among clients.

The AFM notes that investment firms are making progress, and that is a positive step. For example, personal consults with clients may provide the necessary interaction and the required insights in terms of the sustainability preferences. Parties also occasionally provide additional explanations on the website or send out advance additional explanations per email. See the practical example below. These measures help to ensure that customers can carefully prepare for queries on sustainability preferences.

Practical example:
An investment firm sends a client a brochure with additional explanations on sustainability preferences.

This explanation is compact and simplified, with a reference to the website for more information. The SFDR, Taxonomy and PAI are explained in clear terms. The firm also provides examples, such as when companies and investments in companies are ecologically sustainable or not within the meaning of the Taxonomy.
The investment firm sends the brochure prior to a personal consult with the adviser.

This allows the client to carefully read and consider their sustainability preferences.
It also allows the client to ask any other questions during the personal consult.

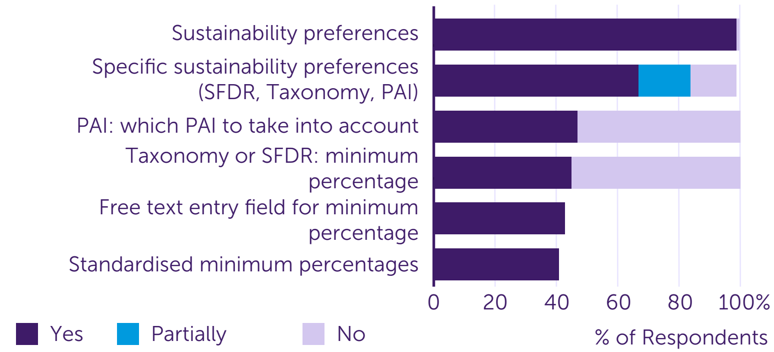
Investment firms can also identify the sustainability preferences via an online questionnaire, without a face-to-face meeting. In that case, it is particularly important to send information in advance and also to post additional explanations on the website to ensure plain and intelligible explanations of sustainability preferences, whether or not combined with interactive text in the questionnaire itself.

Carefully explain the importance and contents of the element of sustainability in the suitability assessment to clients. Be clear about (i) the background and purpose of the assessment, (ii) about the distinction between the different sustainability preferences and (iii) about the definitions of the various terms and concepts. Make sure that clients understand what is expected of them and align with the clients' perceptions. Also, assess the intelligibility among clients.

2.3.3 Majority inquires after sustainability preferences, though this needs to be conducted more diligently

Investment firms should seek information from their current[6] and new clients about their sustainability preferences. This information has to be sufficiently detailed. Obtaining this information should be done in a neutral and unbiased manner.
Investment firms have to identify the specific sustainability preferences of their clients based on the three statutory categories from the Delegated Regulation MiFID II, namely (a) ecological sustainable investments within the meaning of the Taxonomy, (b) sustainable investments within the meaning of the SFDR and/or (c) keeping account of the Principal Adverse Indicators (PAI). If sustainability preferences lean towards SFDR investments and/or Taxonomy investments, investment firms also need to ask their clients about the minimum percentages they wish to see invested therein. Investment firms may have clients fill in their own minimum percentages. Investment firms may also make use of standardised minimum percentages from which clients may choose.

Figure 8. Survey on sustainability preferences of clients



The AFM positively observes that almost all investment firms ask their new and current clients about their sustainability preferences. Conversely, the AFM is less pleased with the diligence and accuracy of the investment firms' methods of collecting information. There is a large group of investment firms that altogether refrain from asking about the specific sustainability preferences (15%), or make any inquiries after the minimum percentages Taxonomy/ SFDR (55%) or press forward about the PAI to be taken into consideration (53%). In addition, the survey shows that there are investment firms that let their clients choose between a highly limited number of minimum percentages.

6 For current clients, firms should have obtained sustainability preferences no later than the upcoming regular update of the client profile, following the effective date of the Delegated Regulation MiFiD II in August 2022.

Additional explanation - *Use of standardised minimum percentages*
The options vary widely. For example, there are investment firms that offer clients the possibility of selecting a minimum percentage in 10% increments, thus choosing between ten or eleven options. Other firms provide clients with fewer choices, e.g. only 0%, 30% and 100%.

The rule of thumb for standardised minimum percentages is: the more options to choose from, the better the options will match the client's actual sustainability preferences. This also benefits the neutrality of information gathering. A limited offer of options can quickly result in insufficiently detailed information gathering, as these options do not sufficiently approximate the exact sustainability preferences of clients. Moreover, clients may be influenced in their sustainability preferences due to the limited options. Clients need to be able to indicate their sustainability preferences free of pressure or manipulation.

Investment firms mainly allude to data as a reason for not requesting specific PAI or minimum percentages, or presenting a limited number of options. There would be a lack of data on sustainability of investments and, according to them, the data that are available are impractical, expensive and time-consuming. Investment firms choose to only request information which they can assess and guarantee with data.

The AFM can understand that the availability and reliability of data on the sustainability of investments leaves room for improvement, however, this does not detract from the fact that it is essential to inquire after clients' sustainability preferences in a detailed and neutral manner to arrive at a sound management or consultancy process. Nor does a lack of data stand in the way of making a detailed enquiry about overview of minimum percentages of sustainability investments demanded by clients. However, it may result in the product range not matching the client's specific sustainability preferences. In that case, the client may choose between adjusting its sustainability preferences or whether the service should be put to a halt.

The AFM calls on investment firms to align the questions they ask with legislative demands and pay greater attention to possible sustainability preferences of their clients. Diligently requesting information from clients regarding their sustainability preferences is imperative to assess the suitability of investments and to avoid any mismatch. It enables investment firms to expand their range of investments where possible and to better align it with their clients' sustainability preferences.

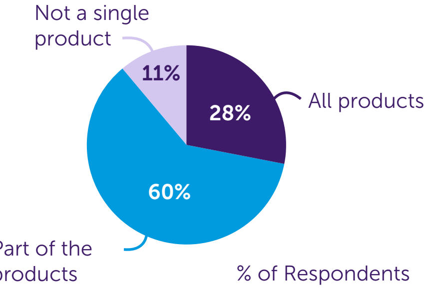
Ask for specific sustainability preferences and give clients the opportunity to choose between an adequate number of minimum percentages or Principal Adverse Indicators. Insufficient data is no reason to not request any detailed information.

2.3.4 Almost all parties identify sustainability characteristics for products or part of their products

Investment firms have to be able to substantiate the choice of products selected based on the sustainability preferences of the client. It is thus important that investment firms retrieve the sustainability characteristics (sustainability factors[7]) of each individual product.

7 Sustainability factors are in this respects understood to mean: environmental, social and employment issues, respect for human rights, and combating corruption and bribery. (Sustainability factors within the meaning of point 24 of Article 2 of Regulation (EU) 2019/2088).

Figure 9. Identification of sustainability characteristics



Almost 90% of investment firms indicate that they can retrieve the sustainability characteristics of at least part of the products. However, 11% of investment firms indicate that they cannot retrieve the sustainability characteristics of any of the products.

For many investment firms, lack of reliable data constitutes an obstacle in retrieving the sustainability characteristics, especially for individual shares, bonds and government bonds. A contributing factor is that investment firms depend on third parties for the data supply. There is little to no standardisation between the data from different external data suppliers. This means that data of different data suppliers are of limited comparability. Some investment firms therefore also state that they collect their own data on sustainability characteristics, for example by examining fact sheets, prospectuses, annual reports and ESG reports. The AFM considers this good practice. Investment firms may also make use of SFDR information or information issued by means of the European ESG Template (EET).

The AFM calls on investment firms - and especially those 11% that do not retrieve any product information whatsoever - to make maximum effort to retrieve the sustainability characteristics of products. This is also essential for the suitability assessment of investments.

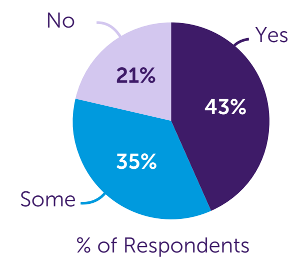
Identify the sustainability characteristics of products. Do not limit yourself to only obtaining data via external data suppliers. Where needed, also make use of other sources, such as SFDR information, prospectuses and annual reports.

2.3.5 Almost a quarter of firms cannot provide clients with suitable investments

Investment firms, either in providing their advice or portfolio management - to provide clients with suitable investments. It is not permitted to recommend investments or to implement investment strategies that do not comply with the (initial) sustainability preferences of clients. However, clients may decide to adjust their sustainability preferences, to remedy the mismatch. Investment firms may not exert any influence on this decision. They may, however, draw clients' attention to the possibility of adjusting their preferences.[8] As soon as a client decides not to adjust the sustainability preferences, the investment firm has to discontinue its services.

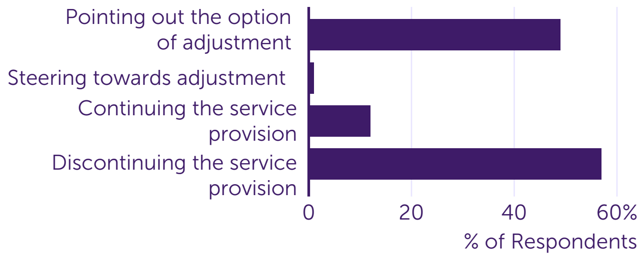
Figure 10. Suitability of investments

Can you provide your clients with suitable investments in view of sustainability preferences?



8 Investment firms must also record the decision to adjust, thereby stating the reasons of that decision.

Figure 11. Working method for unsuitable products



There is a considerable group of investment firms that indicate that they are unable to provide their clients with suitable investments given those clients' sustainability preferences. This group could actually be even higher. After all, the self-assessment also showed that clients do not specify their sustainability preferences, because they fail to understand what is expected of them. There can be a number of reasons for this, including use of language that is too technical. Additionally, many investment firms request insufficiently detailed information about sustainability preferences. As a result, investment firms recommend investments or implement investment strategies that while they match the results of the requested sustainability preferences, they do not match the actual sustainability preferences of clients.

The AFM urges investment firms to invest in expanding their range of investments, allowing this range to better reflect clients' sustainability preferences.

A large group of investment firms draw their clients' attention to the possibility of adjusting their sustainability preferences and/or to discontinue the service provision if the products are unsuitable. However, there are also investment firms that state to steer towards adjustments (1%) or that decide to continue the service provision (12%), despite the mismatch in the area of sustainability preferences. This is expressly not the intent. The AFM expects these investment firms to align their working methods with legislative requirements.

If there are no suitable investments that match the sustainability preferences brought forward, inform your client of the possibility of adjusting sustainability preferences and/or to discontinue the services. It is not allowed to steer the customer towards adjusting the sustainability preferences or to continue the service provision of unsuitable products.

3. Life insurers

All life insurers indicate that they have taken steps in integrating sustainability factors into their POG policies. Almost all insurers have adopted policies on determining the sustainability objectives of the target market. Almost all insurers also have policies in place to include sustainability in the distribution strategy.

Most insurers provide the insurance distributors with sustainability-related information. All insurers have evaluated their product range for sustainability purposes. For among half of them, this has led to an adjustment of the target market and/or the distribution strategy.

3.1 Market view

Figure 12. The population group

Nine insurers completed the questionnaire. They offer insurance-based investment products[9] to new clients.

Tax regime of the product range:

Second pillar	(8 of 9)
Third pillar	(3 of 9)

They report on their main second-pillar product and all third-pillar products. Apart from one insurer, all parties said to offer second-pillar pension insurance. Most insurers indicate that they are not active market participants in insurance-based investment products in the third pillar. There were no insurers that indicated to be active in the market for non-tax-facilitated (Box 3) insurance-based investment products. All insurers indicate that their products promote sustainable characteristics, and thus have to meet the requirements of Article 8 of the SFDR.

Figure 13. Distribution channel

Intermediary	(5 of 9)
Direct	(1 of 9)
Both	(3 of 9)

Both direct insurers and intermediary insurers are involved in the review. Direct insurers can exert more influence on distribution, as they are in control of the distribution processes.

Figure 14. Advice on products

Advice provided	(5 of 9)
No advice given	(2 of 9)
Both	(2 of 9)

The products are distributed both with and without the provision of advice. The majority of insurers opt for advice-only distribution.

3.2 To what extent do life insurers include sustainability in their POGs?

Developers of insurance products have to incorporate sustainability factors and sustainability objectives in their POGs, which will give their clients better access to products that are aligned with their sustainability objectives.

3.2.1 Almost all insurers have policies in place to establish the sustainability objectives of the target market

Insurers are required to detail in their policies the methods by which they determine the sustainability objectives of the target market. A product's sustainable characteristics have to be aligned with these sustainability objectives.

9 This involves both tax-facilitated second- and third-pillar pension insurance as well as non-tax facilitated pension insurance.

Almost all insurers (89%) have adopted policies on determining the sustainability objectives of the target market. Most have done so based on objectives in the area of Environmental, Social and/or Governance (ESG). The EU Taxonomy is used least in terms of determining the sustainability objectives. The Principal Adverse Indicators (PAI) are also mentioned as criteria that are applied on policies. The sustainability objectives of the target market have to be sufficiently detailed (granular).

Sustainable products may match both investors who want to invest in a sustainable manner and investors without such an objective. The in-depth interviews showed that some insurers assume that a pension product has by definition a sustainable characteristic as it provides supplementary income for old age and thus has a social characteristic. According to the AFM, is it insufficient to attribute the sustainable characteristic to a pension product since the social characteristic lacks distinctive significance.

Products that lack sustainable characteristics do not match investors who value sustainable investing. This should thus be taken into account in determining the (negative) target market and the product's distribution strategy. The self-assessment shows that most insurers use their POG policies to describe how they include sustainability in the negative target market of products lacking sustainable characteristics. The AFM expects the same from insurers that have not yet done so.

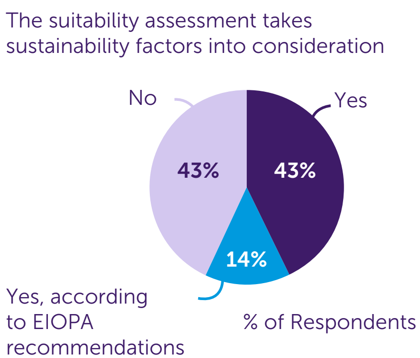
Use the policy to describe how sustainability objectives should be included in the target market. Make sure that the sustainability objectives of the target market are sufficiently detailed. Also lay down in the policy the details on how the negative target market for products lacking sustainable characteristics need to be established.

3.2.2 Almost all insurers have laid down in their policies details on how the distribution strategy needs to ensure that products align with the sustainability objective of their clients

A distribution strategy has to ensure that products end up with the defined target market and are not (structurally) sold outside the target market. Taking the sustainability objectives into account in determining the target market may impact the distribution strategy.

Almost all insurers (89%) indicate that their policies lay down the details on how the distribution strategy is to ensure that the sustainable characteristics of the products align with the sustainability objectives of the target market.

Figure 15. The suitability assessment takes sustainability factors into consideration



In terms of consultancy services, the suitability assessment is the primary means to ensure that the product aligns with the investor's personal situation. More than half of the insurers that provide consultancy services indicate that they factor in sustainability factors when conducting suitability assessments. Part of this group indicate that they follow the recommendations of EIOPA in this.

When it comes to distribution without the provision of advice, insurers do not have the option of obtaining sustainability preferences. In this distribution channel, it is therefore even more important that the distribution strategy including the (online) information disclosure is in place.

Half of the insurers that also distribute without providing advice indicate that they show investors a description of the target market to ensure that products end up with the right target market. There is no mention of other measures, such as showing product information. The AFM has also seen examples of insurers presenting themselves as sustainable on their websites, leading visitors to believe that the product range is sustainable. If the sustainability of the product range corresponds with the impression created, this approach may help contribute to the correct distribution to the target market. However, if the sustainable characteristics of the product range do not match the investors' expectations, this may result in greenwashing.

Apply methods that ensure that clients are provided products that match their objectives. Ensure that both the contents and the presentation of the information align with the sustainable characteristics of the product.

3.2.3 Insurers provide insurance distributors with sustainability-related information

Insurers are required to provide their distributors relevant information about the sustainable characteristics of their products and about the sustainability objectives of the defined target market. All insurers state to provide sustainability-related information. This is a positive notion. The AFM notes that it is not sufficient to only refer to information published pursuant to the SFDR, as this information does not contain any information about the defined target market.
Insurers are also required to provide information about the negative target markets for products that lack sustainable characteristics. This allows distributors to better align their distribution strategy with the developer's marked-up distribution strategy and defined target market. Direct insurers need not provide any information to insurance distributors.

Provide distributors with relevant information about the sustainable characteristics of products and about the sustainability objectives of the defined target market.

3.2.4 Insurers evaluate product range on sustainability

An amendment in the legal standard usually triggers a re-evaluation and adjustment, if needed, of the POG policy and the product range. Additionally, the adjustments must also be applied in practice in the evaluation of new and existing products.

All insurers indicate that they have subsequently evaluated all or part of the products on offer. For approximately half of the insurers this meant adjusting the (negative) target market definition and/or distribution strategy.

Evaluate both new and existing products and determine the changes that need to be implemented in the target market and distribution strategy in relation to the adjustments of the legal standard.

4. Review methodology

This review has been conducted by means of a self-assessment and in-depth meetings. Investment firms and life insurers formed part of this review. Findings of the self-assessments are based on the self-assessments of firms.

4.1 Self-assessment with questions about sustainability requirements

The self-assessment comprises questionnaires on compliance with the sustainability requirements in the suitability assessment. Below is a list of the types of firms[10] that were part of the self-assessment, which questionnaires they completed and in what capacity.

POG
- Investment firms as distributors of financial instruments
- Insurers as developers of investment-linked insurance[11]

Suitability assessment
- Investment firms that manage individual portfolio
- Investment firms that provide financial advice insofar as they also manage individual portfolio

4.2 In-depth interviews on specific steps

There have also been in-depth meetings with nine firms. The aim of the in-depth interviews is to gain insight into the specific steps taken by market participants in practice to integrate the sustainability standards in their POG and/or the suitability assessment.
Any good or bad examples have been incorporated into this report.

4.3 Limitations of this review

Findings of the self-assessments are based on the self-assessments of firms. This means that the AFM has not independently assessed the accuracy of the responses given. Furthermore, the self-assessment particularly focused on the question as to whether there is certain information or whether there are any documents and/or whether certain process steps have been taken. The outcome does not provide any insight into to quality of information or performance thereof.

10 Those having their registered office or branch office in the Netherlands and providing services to non-professional investors.
11 This would include both insurance with an investment component and insurance that are pension products.