HYMANS ROBERTSON

Climate-friendly Investments: Consumer attitudes and insights

April 2023

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Executive Summary

Consumers believe climate change is a problem and are motivated to choose climate-friendly investments. The financial services industry needs to provide clear information when engaging with consumers, educating them about their options, to overcome the barriers our survey identified.

Climate change is an important issue for savers in the UK, say 93% of those surveyed. There's little disagreement that human activity is causing climate change, with a high level of concern that it will affect respondents over their lifetime, not just that of future generations. Providers of financial services products should therefore find climate change an easy subject to discuss with customers, and they should consider how it's best integrated into product development, marketing and communications.

Respondents agreed that the main factor in evaluating a 'good' investment was the expectation of higher returns. However, 60% also stated that climate change would be a factor in assessing potential investments. While those surveyed generally believed that investing in a climate-friendly manner wouldn't impact on the risk and return of their investments, they need more and better information to make judgments.

Investors are also unclear on how the way they invest their money could have an impact on climate change. When engaging with customers, firms should consider how they can educate them, rather than assuming a level of knowledge, because investors need to better understand the fundamentals of how investment and climate change are linked.

Our survey also suggests there's a high appetite to move to climate-friendly investments, with over 75% of respondents saying they'd be likely to change. If providers can address the key information and knowledge barriers, then they have a real opportunity to not only increase market share and savings levels from existing customers but also to help contribute to their own net-zero goals.

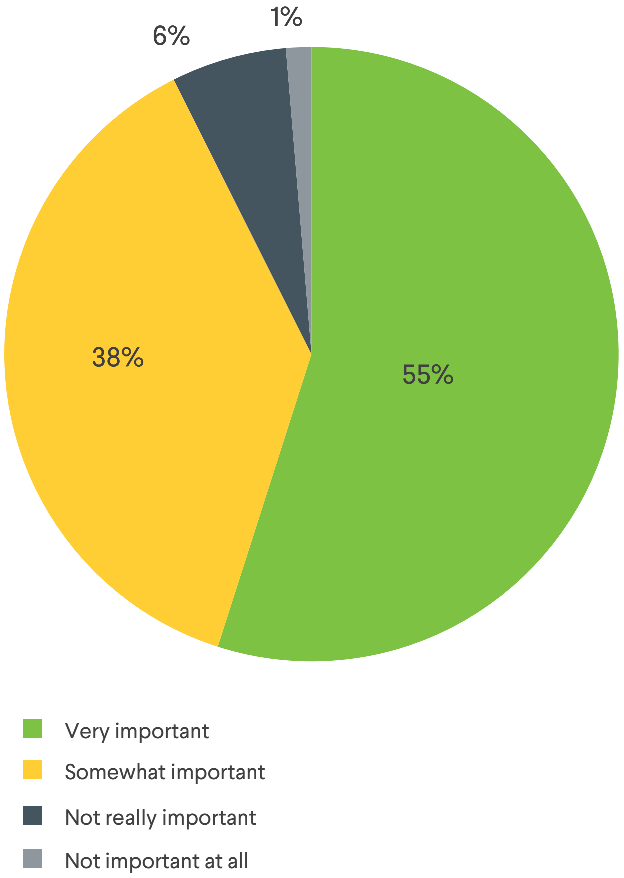
The message for providers is clear: give customers a holistic view of investments, allowing them to understand their expected risk and return, alongside how their investment strategy can impact climate change. The industry needs to do more to demonstrate to investors that climate risk is investment risk, while communicating how different strategies address climate change.

There's still plenty of work for the industry to do, not only the providers, by developing options and communicating these clearly, but also the regulator, to ensure that customers can easily compare investments. The progression of the Financial Conduct Authority's Sustainability Disclosure Requirements (SDR) consultation into labels on investments products will be key to ensuring consistency and clarity of communication for the consumer.

Is climate change an issue?

Participants agreed climate change was important to them. The results showed that 55% felt it was very important and an additional 38% felt it was somewhat important. This leaves little doubt that there's huge scope to engage consumers on this subject.

How important, if at all, is the issue of climate change to you today?



In line with scientific consensus, the majority (over 80%) of consumers also agree that human activity is causing climate change. There was a reasonable population (14%) that neither agreed nor disagreed, suggesting they weren't sure, which presents an opportunity for the financial-services industry to provide information and education to allow this population to make an informed decision.

Consumers were also asked if they believed their investment choice could have an impact on climate change, with 63% of consumers agreeing it could. Those with higher income and savings were more likely to agree with this statement, reflecting a potentially greater knowledge about the relationship between investing and climate change risk.

The population that has higher savings and income is also more likely to have a financial adviser. Advisers offer an additional source of information and education to investors, with the process of understanding investor needs also likely to allow individual views to be explored.

When asked about their concerns, around 80% said they worry about how the effects of climate change will impact both them and future generations. While the youngest age group was equally concerned about themselves and the future generations, older age groups tended to worry less about the impacts to them personally.

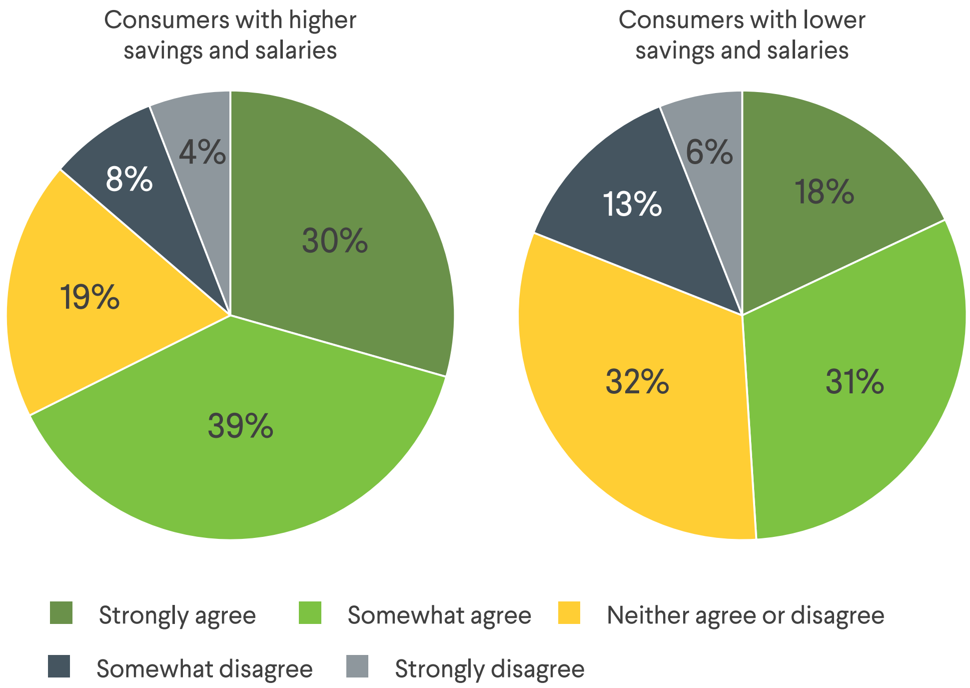
These responses could be explained by the older groups' belief that they're less likely to be around to experience the worst impacts of climate change. However, they may not fully appreciate when climate-related financial risks can arise. This suggests that while younger investors may be more likely to tailor their savings and investments to be climate-friendly, there's a broader need to educate all investors on how climate change could impact investment returns.

Current thoughts on climate-friendly investments

While 63% agree their investment choices could have an impact on climate change, more than a third of customers are not convinced. However, 80% of respondents agreed that investments should be those that prevent climate change as standard. They saw this as the provider's responsibility, implying that even where they weren't sure about the impact an investment could have, they agreed that its negative effects should be minimised where possible.

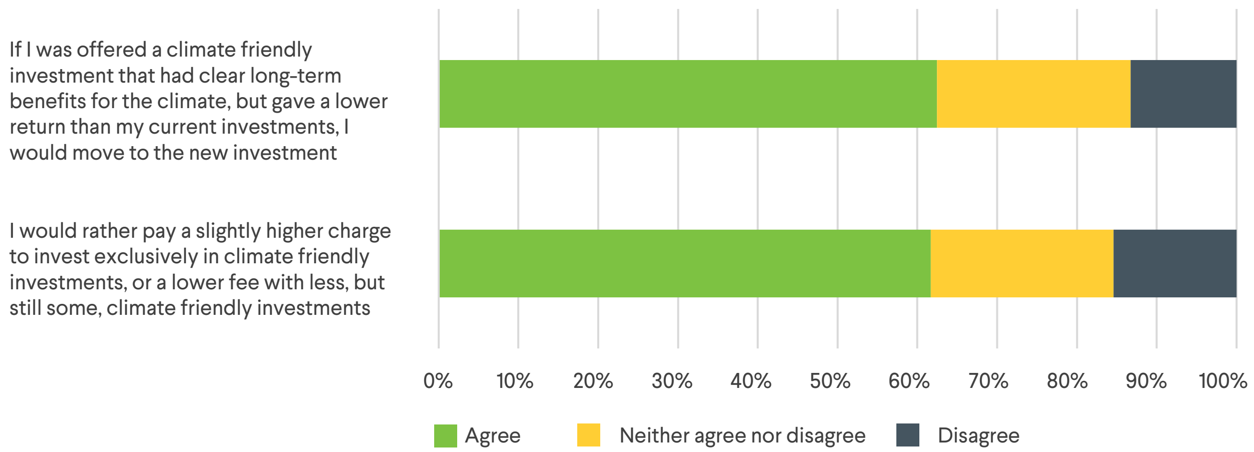
When asked about whether they consider climate change when choosing an investment, 59% said they did. Those with higher savings and salaries say they're more likely to consider climate change when choosing investments, as illustrated in the charts. This difference may simply reflect the immediacy of the issue, it being a decision that needs to be taken today, rather than a hypothetical decision for the future.

I (or my financial adviser) consider climate change when choosing my investments, such as pensions or stocks and shares:



Respondents were also asked about their tolerance for reduced returns or increased charges on a climate-friendly investment. The charts below show there's a demand for these investments, even where there might be a lower expected return. The older age group asked was more likely to disagree with these statements, possibly because of the shorter expected term of their investments and, therefore, a lower appetite for lower returns. For example, they may be closer to retirement and require a minimum level of return to reach their retirement goal.

Looking more generally at what individuals believe a 'good' financial investment is, over half felt that it should only be measured on how much profit it makes, regardless of how it makes that profit or the damage it might have done in achieving this. Less than 20% disagreed with this statement and only 5% strongly disagree. The overall sentiment is that climate-friendly investments still need to provide a good return, in comparison to other available investments, to be of interest to the average consumer, even if there is some appetite for a marginally lower return.

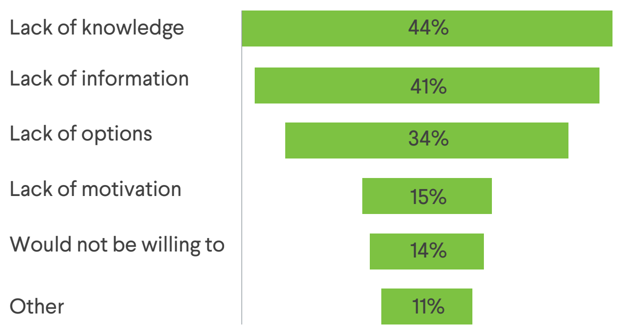


Barriers to climate-friendly investment

What barriers to entry are consumers finding to climate-friendly investment? For those surveyed, lack of knowledge, information and options were all highlighted as key barriers.

Only around 60% of the individuals surveyed felt that they understood how their choice of investments could impact the climate or how climate change could affect their investments.

What is stopping you from investing in climate-friendly investments, if anything?



While a lack of knowledge and information are cited as barriers to investment, there is a reasonable level of belief that investing in a climate-friendly manner shouldn't impact on either the returns achieved or the safety of their investments. Over 60% of respondents believe that returns from a climate-friendly investment would be the same or better, with a further 9% unsure whether it would be better or worse. Only 1 in 6 believe returns would be lower.

This general belief that climate-friendly investment is unlikely to be detrimental offers providers a platform on which to build, particularly when seeking to overcome a perceived lack of investment options. Better signposting towards existing climate-friendly investments may offer one route, and continued innovation in the development of products is also likely to be necessary.

Climate-friendly investing is in its relative infancy, and it will be necessary for providers to build a more complete understanding of climate-friendly investments. Greater clarity on how different types of investment can help to mitigate climate change and communicating the susceptibility of different assets to climate risk are both likely to be beneficial in closing investors' knowledge gap.

Around 15% of respondents stated that they lacked motivation to invest in climate-friendly investments, with a similar proportion being simply unwilling to do so, potentially due to some level of scepticism about the merits. Digging deeper into the responses indicates that some individuals believe climate change to be exaggerated and therefore would be unlikely to consider making climate-friendly choices when investing.

In the open responses, a few individuals specified a lack of money as being the reason for their inability to invest sustainably. Given the current cost-of-living crisis, climate change may not be at the forefront of everyone's mind, and it may be harder for people to get the appropriate advice and information on their investments. To help address this, and the customer needs identified in our survey, more information must be made readily available to consumers to allow them to make informed decisions about the benefits of climate-friendly investments.

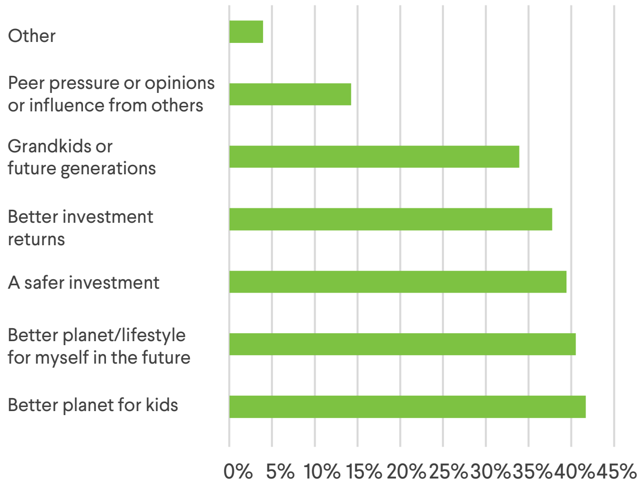
How to motivate investors

Despite a high proportion suggesting that they'd like to invest in a climate-friendly way, we've already seen that consumers don't fully understand the impact their investments can have. Motivating customers to invest in climate-friendly products requires a combination of engagement and education.

The financial services industry needs to demonstrate that levels of risk and return from climate-friendly investments remain comparable to other investment options and where it isn't the motives of the customer to choose an alternative would need to be considered.

We asked participants what would motivate them to make climate-friendly investments in the future, with each person being allowed to make multiple selections.

What would motivate you to make climate-friendly investments, if anything?



A better planet for kids and a better planet/lifestyle for myself in the future were the most popular responses. Concerns over future generations also ranked highly, echoing the worries respondents expressed about climate change.

Better returns and safer investments were ranked consistently with non-financial motivators, supporting the need for expectations of return to be backed by delivery. Industry needs to demonstrate that levels of risk and return from climate-friendly investments remain comparable to other investment options.

As well as engaging and motivating individuals to invest in a climate-friendly way, the financial services industry must also provide clear information to allow them to make decisions between different options. This information must be provided with the appropriate level of detail for consumers to understand and use in their decision-making. The FCA has started to make progress toward this with its consultation SDR (CP22/20). Once the FCA publishes the outcome of this consultation, there's likely to be work for the providers above and beyond these requirements, to ensure communication is clear and transparent to the consumer.

A good example of where complex information has been effectively communicated to consumers in other government initiatives would be where nutrition information in provided on food packaging. The consumers can see the numbers but also the traffic light system, which is easy to understand and engage with. It'll be important for the financial services industry to look to other industries and learn from them where possible.

What role are financial advisers playing?

In the survey, 50% of the individuals had a financial adviser, although men were significantly more likely (65%) to have a financial adviser than women (40%). This suggests that women face more barriers to getting advice than men – a finding not unique to this survey. Financial-services firms will already be aware of the gender savings gap, which should be factored in when considering how different groups of customers should be engaged.

As expected, those with more savings and high salaries are more likely to have a financial adviser. It was also observed that, of those with financial advisers, those with higher wealth were more likely to get specific advice regarding climate change, suggesting this information is not yet provided as standard.

Historically, advice has focused on risk and return profiles, not the impact of investments on climate change. Unless included as part of an adviser's default package, details on the environmental impact of an investment are unlikely to be provided to consumers unless they ask for them. This requires the consumer to understand why these details are important to request from their adviser when they're discussing investment choices.

66% of those with advisers tended to agree that the makeup of their investments come second to the actual return compared to 49% of those without advisers.

Those with advisers tended to be more likely to agree that their investments can have an impact on climate change, suggesting that advisers are helping consumers understand the true power of their investment choices. The population with advisers should also be educated that climate-friendly investments can still equal or outperform other investment choices.

We expect to see an increase in advisers' focus on the impact of investments on climate change, reflecting changes in the industry, regulation and consumer demand. The improvements in information available from providers and the increased focus on consistency will also help advisers to make accurate recommendations to their clients.

When consumers were asked what they wanted their adviser to do with respect to investments that aren't climate-friendly, over 50% would prefer an investment manager or financial adviser that uses their influence to push financial services firms towards more climate-friendly investments, while only 30% would prefer to avoid these investments entirely. This shows a majority of consumers expect more engagement from those that sell or promote these investment products. This is in line with the emerging best practice in the industry.

The future of climate-friendly investing

The majority of consumers feel that the responsibility of ensuring investments are climate-friendly should lie with either government or the broader financial services industry. It will be important for the industry to take appropriate responsibility in line with consumers' expectations and not wait for consumers to educate themselves in order to take actions. For some more sophisticated investors, and those with financial advisers, this might be appropriate. But for the majority, providers will need to take responsibility to invest appropriately on their behalf, offering digestible information to reassure customers that funds meet their needs with regards to climate change.

Having consistent metrics and clear information on investment products will reduce the effort required by financial advisers and make it practical to offer this advice as standard, avoiding the need to increase fees disproportionately. We're already seeing positive steps in this direction, including the requirement to report in line with TCFD guidance and the upcoming requirement for firms to produce net-zero transition plans, both of which aim to provide greater transparency on how firms will focus on climate change.

Regulation of investment products will be important to support this transition. The FCA's Policy Statement (PS21/24) on enhancing climate-related disclosures by asset managers, life insurers and FCA-regulated pension providers is a positive step in this direction, as it will improve consumer understanding and data coverage for the industry. However, to really support climate goals, these types of disclosures must be accessible and comparable to be of use to the average consumer.

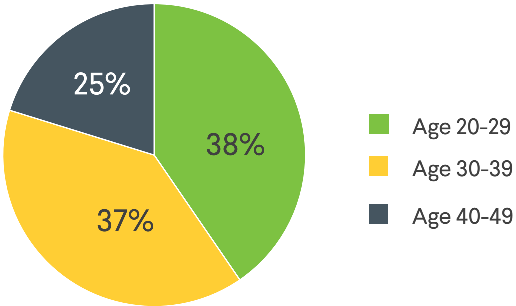
The FCA's recent consultation paper on SDR (CP22/20) aims to set rules on the labelling of sustainable investments to make it easier for consumers to understand what they're investing in. Currently, these labels are inconsistent and unregulated. The consultation closed in January, and the industry will now wait for the outcome from the FCA.

For workplace pension schemes – particularly auto enrolment, where the majority will be invested in default arrangements – there's unlikely to be active consideration of investment choices. Consumers' desire to invest in a more climate-friendly manner should therefore be in harmony with financial-service providers' growing ambitions to transition assets to net zero. Default funds should be expected to increasingly meet customers' climate change preferences, but it will be important to communicate the climate attributes of default funds in a consistent and easily understandable way.

Given the clear consumer interest and the focus from both the financial services industry and the regulator, climate-aware investing is likely to stay in focus. There's significant scope for innovation and creativity as we try to solve the planet's most important challenge.

Appendix: The Survey

Hymans Robertson commissioned Censuswide[1] to conduct a survey of 1,500 consumers. Before taking part, consumers were asked to provide information about their ages, salary and amount of savings. 50% were defined as having at least £100k investments and at least £80k annual salary, and the remaining with at least £5k in investments but less than £100k investments and less than £80k salary. A sample was taken across the age groups 20–29, 30–39 and 40–49 years.



Approximately half of the individuals surveyed had a financial adviser, and two thirds of them were women. The participants were sampled from across the UK, with the smallest percentage from Northern Ireland (1.4%) and the largest from London (33%).

Consumers were not informed that the survey would be about climate change until they had agreed to participate, to avoid any selection bias in the population that was surveyed.

Participants were provided with a set of questions and asked to complete these.

[1]Censuswide abides by and employs members of the Market Research Society which is based on the European Society for Opinion and Marketing Research principles. Censuswide is a member of the British Polling Council (BPC).

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