



# **Sustainable Finance: Knowledge Gap**

**January 2024**

## **Foreword**

I am delighted to be able to share these new insights with members, providing a baseline, for the first time, of the sector's approach to and confidence in advising on Sustainable Finance.

The Personal Finance Society seeks to support its members in taking a leadership position on behalf of clients and wider society through good practice guidance and relevant learning.

In order to do that effectively, we need to be able to identify the nature and scale of the gap between where we are now and where we want to be.

With the Consumer Duty coming into force last year, and with Sustainable Disclosure Requirements (SDR) and investment labels being rolled out during 2024, there is a need for an investment in awareness and competence across the sector not just to satisfy regulatory demand but to respond to growing interest from clients.

This report illustrates that there is a good general awareness of ESG and sustainable financial advice, but that we do not yet have consistent approaches or levels of confidence in advice. Indeed, there are a number of inconsistencies in the ways that similar questions have been answered that suggests we should look at the broad picture rather than individual statistics in isolation.

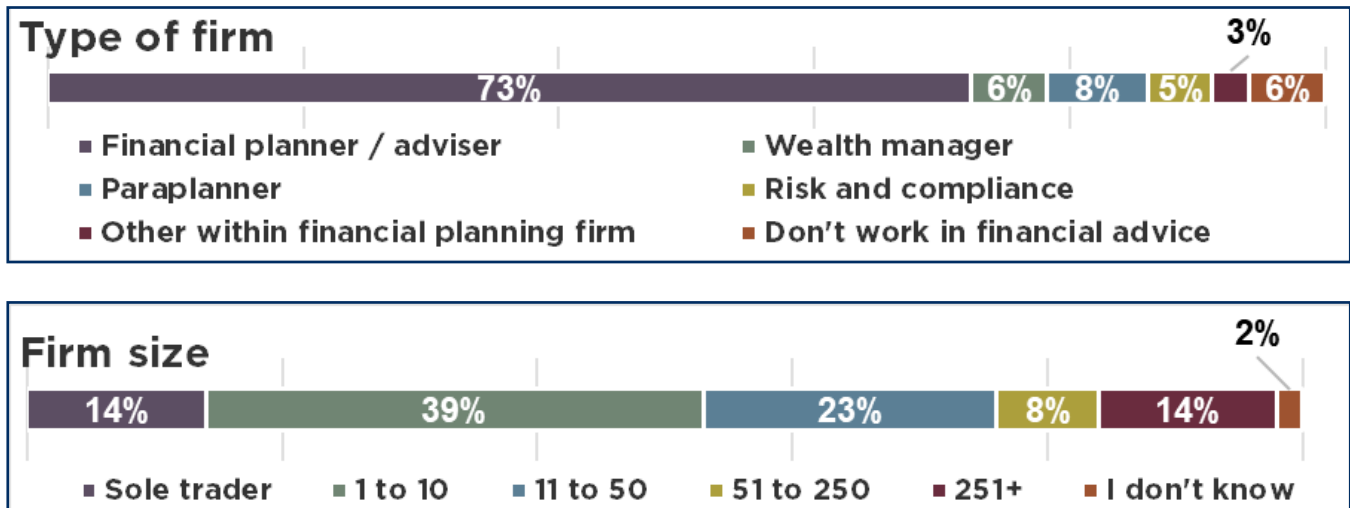
One clear message we can take from this survey is that we must focus not just on the technical understanding ESG funds and ratings, but on the practical skills of investment selection, client education and communication.

The PFS is here to help members respond to that need.

Don MacIntyre,  
Chief Executive Officer (Interim), Personal Finance Society

# Methodology

Anonymised aggregate data were gathered via a survey of PFS members invited by email 16-27th October 2023. A total of 436 responses was obtained, from a wide range of types and size of firm:



## Key findings

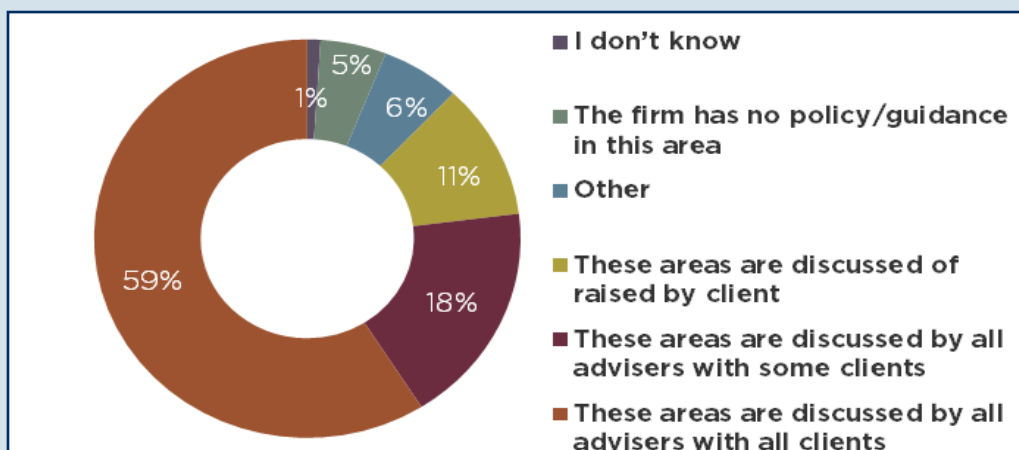
### 1. Firms' approach to ESG and sustainable investment advice

- 1.1 How is sustainable investment advice embedded?

On average across all firm sizes, 8 in 10 respondents state ALL advisers in their firms discuss ESG investments with clients, and do so mostly with ALL clients.

Only 6 in 10 respondents could say for certain that all clients always proactively asked about ESG, sustainable or values-based investment options. This leaves 4 in 10 with an uncertain or inconsistent response.

*How would you describe the way ESG, sustainable and values-based investment options are embedded within your firm?*

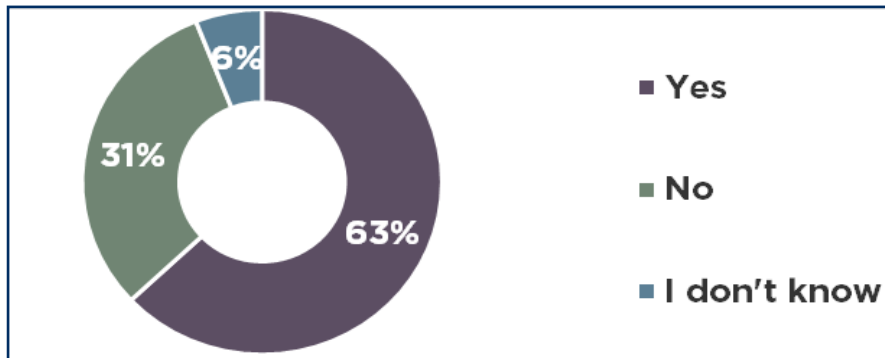


# Key findings cont.

- 1.2 How are client sustainability preferences established?

6 in 10 respondents state their firms require advisers to follow a standard process to establish client ESG and sustainability preferences.

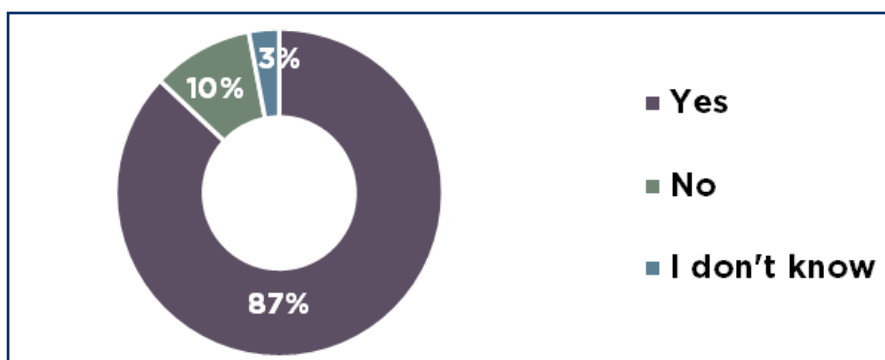
*Does your firm require advisers to follow a standard process to establish client ESG and sustainability preferences?*



- 1.3 How do firms ensure clients make informed investment decisions?

On average, 9 in 10 respondents state their firm requires advisers follow a standard process to ensure clients make informed decisions.

*Does your firm require advisers to follow a standard process to ensure clients are making informed investment decisions?*

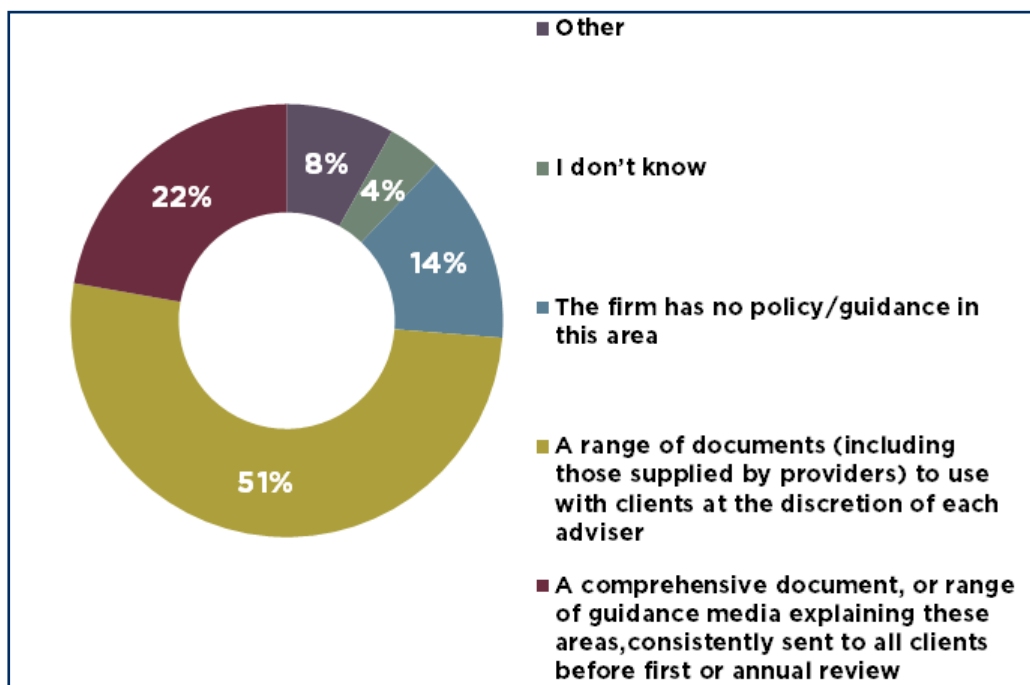


# Key findings cont.

- 1.4 What information is used to help clients make informed investment decisions?

The most common approach across respondents of firms of all sizes is to provide a range of documents to use with clients at the discretion of each adviser, with 5 in 10 respondents stating so.

*What information is provided to clients on conventional, ESG, sustainable and values-based investment options to allow them to make informed investment decisions, as required by Consumer Duty?*

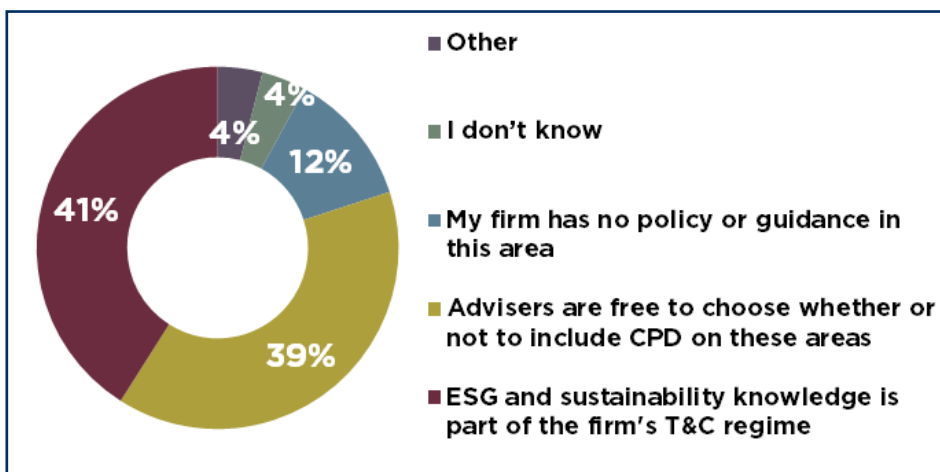


# Key findings cont.

- 1.5 How do firms approach awareness & education?

Only 4 in 10 firms include ESG, sustainable and values-based investment knowledge as part of their T&C regime. Over half of firms leave employees the freedom to choose, have no guidance or don't know their firm's approach.

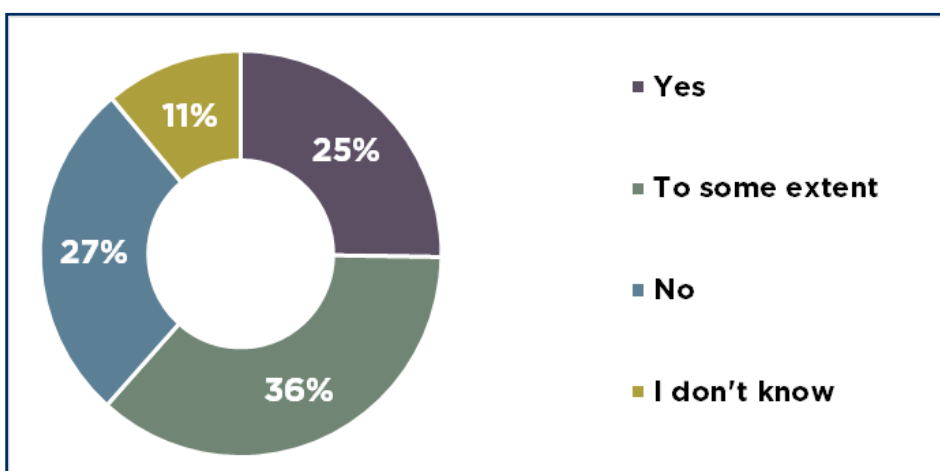
*What is your firm's approach to adviser awareness and education on ESG, sustainability and values-based investment?*



- 1.6 Monitoring communications containing ESG and sustainable references

Only a quarter of respondents report that their firm has a formal process in place to monitor ESG, sustainable and values-based investments in all cases.

*Does your firm have a formal process to test, monitor and adapt communications containing references to ESG, sustainable and values-based investments?*

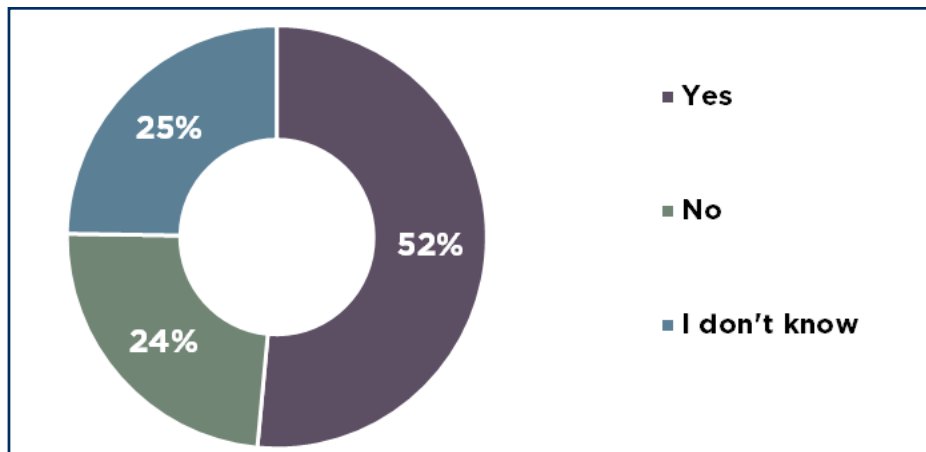


# Key findings cont.

## 1.7 Actively checking against greenwashing

On average, 5 in 10 respondents state their firms actively check for greenwashing.

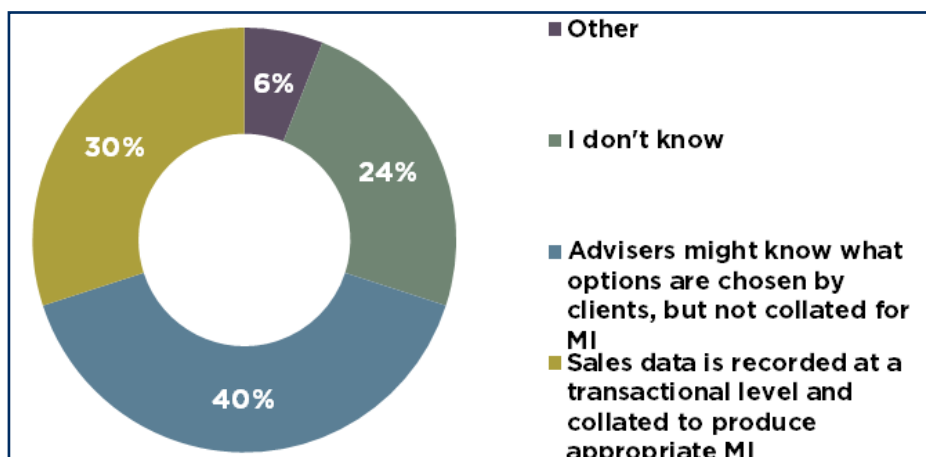
*Does your firm actively check for inadvertent greenwashing?*



## 1.8 Use of sales data in Management Information

Only 3 in 10 respondents are confident their firm collates ESG, sustainable and values-based investment sales data at a transactional level, including almost 1 in 4 stating they didn't know.

*Does your firm collate Management Information (MI) on client responses to ESG, sustainable and values-based investment options?*



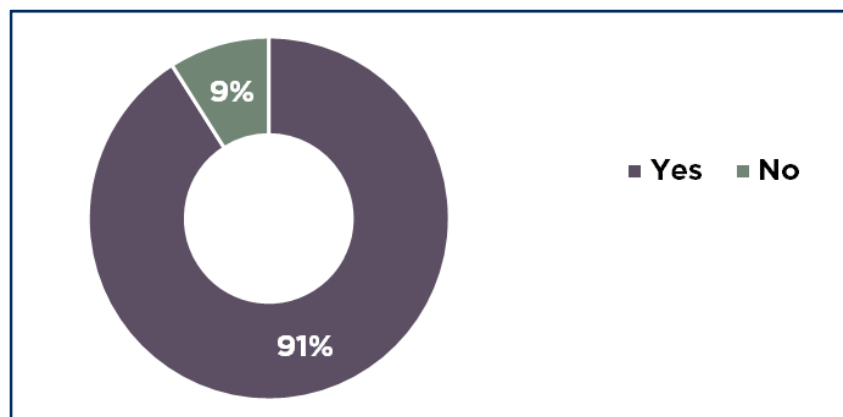
# Key findings: Individual knowledge

## Individual knowledge and approach to advising or supporting ESG, sustainable and values-led investment advice

2.1 How widespread is the practice of advising on ESG, sustainable and values-led investments?

On average, 9 in 10 respondents advise or support the advice of ESG, sustainable and values-based investments. Sole traders are slightly less likely to do so.

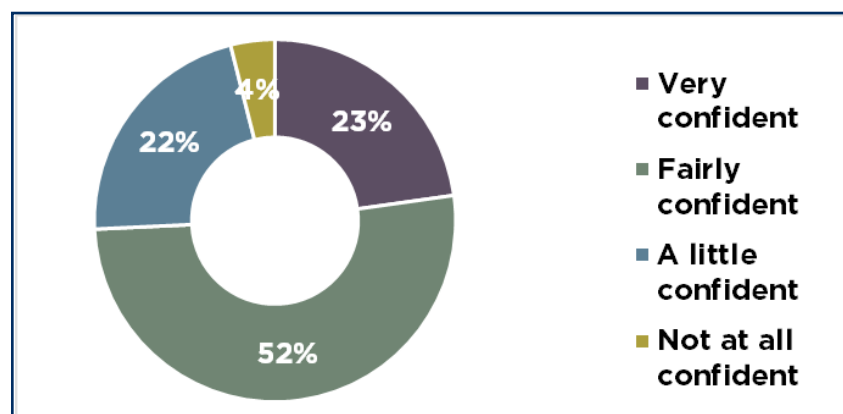
*Do you advise or support the advice of ESG, sustainable and values-based investments?*



2.2 How confident are practitioners in advising on ESG, sustainable and values-led investments?

Three quarters of practitioners working in SMEs or large firms state being either fairly or very confident in their capability.

*How confident are you in advising on ESG, sustainable and values-based investments?*

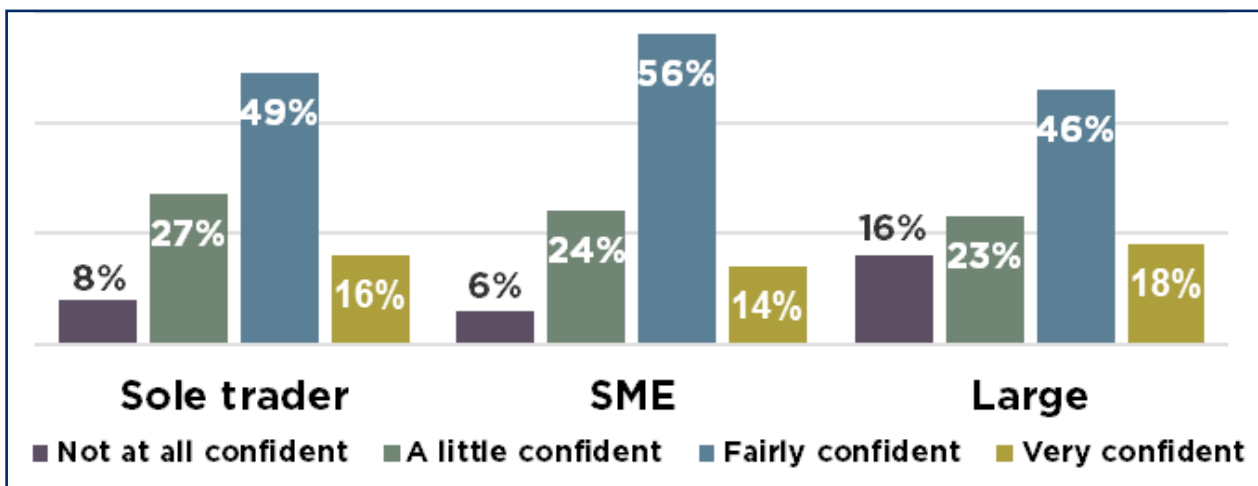


# Key findings: Individuals cont.

## 2.3 How confident are practitioners in analysing sustainable investments?

On average, around half of respondents state being fairly confident in analysing sustainable investments. 16% of those working in large firms state not being at all confident in analysing sustainable investments, this is over twice more likely than SMEs and twice more likely than sole traders.

*How confident are you in analysing sustainable investment options?*

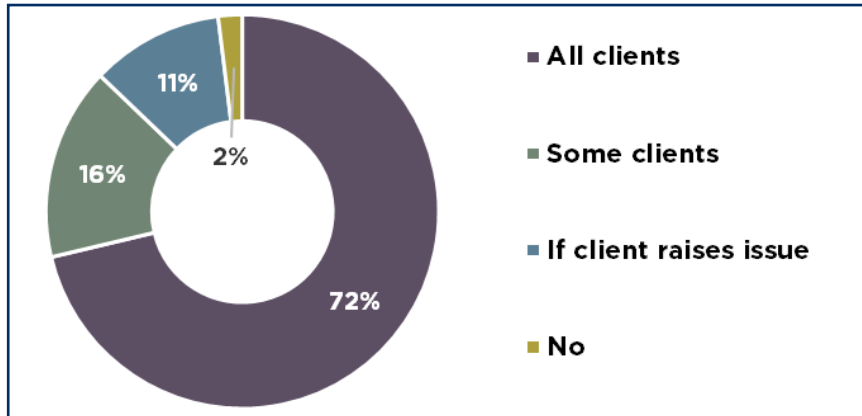




## 2.4 Are clients asked about investing in ESG, sustainable and values-led options?

On average 7 in 10 practitioners ask ALL clients if they wish to build ESG, sustainable or values-based options into their investment strategy.

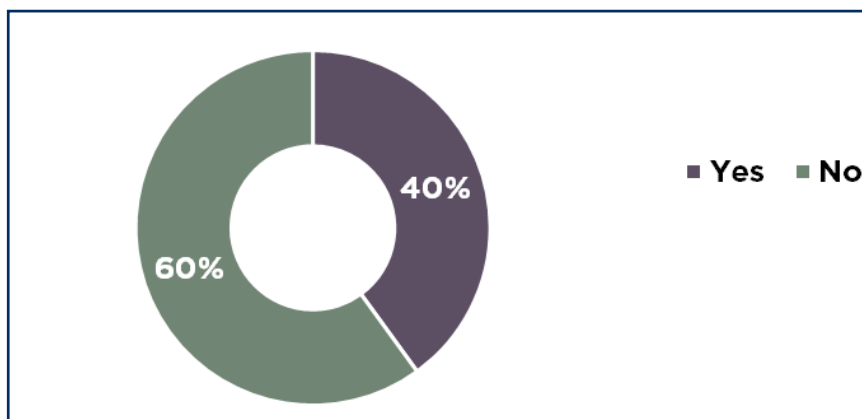
*Do you ask existing and new clients if they wish to build ESG, sustainable or values-based options into their investment strategy?*



## 2.5 Are there concerns about advising on sustainable investments?

On average, 4 in 10 practitioners state having concerns about sustainable investment advice.

*Do you have any concerns about offering sustainable investment advice?*



# Advisers' areas of concern with ESG and sustainable advice

Advisers volunteered four key areas of concern in response to the question 'Do you have any concerns about offering sustainable investment advice?'

## Greenwashing & mistrust in fund providers

- "Greenwashing, not enough information from fund managers to know what is being invested in and why."
- "Greenwashing - could be a future complaint issue."
- "It is transparency and really understanding whether investment providers are ethical or just use the 'words' as a marketing tool to look better".

## Lack of standards/benchmarks

- "The main concern is that there are approximately half a dozen ESG & Sustainable rating agencies, the definitions and ratings given by each on the same funds and companies can differ drastically, therefore until such time that this is harmonised properly it is almost impossible to have consistent process based on due diligence on funds".

## Lack of diversification and its risks

- "Difficult to build a globally diversified ESG portfolio, as the universe of funds does not typically offer exposure to individual geographical areas. ESG funds tend to centre on the US and European markets."
- "Concentration of stocks, particularly mega cap US tech within ESG portfolios. Such concentrations can lead to foreseeable harm."
- "Diversity, levels of risk being too high within ESG structures and predominantly this has to be raised with clients it is only a handful to raise it with me."
- "I don't think clients fully understand the risks of limiting their exposure to certainty sectors."

## Underperformance

- "It seems as if people's appetite for investing sustainably may have diminished given underperformance in the last few years."
- "ESG funds have proved themselves to be considerably more volatile for clients than mainstream investment funds."
- "Clients will feel it's a good idea , but complain when performance is below par."
- "Clients will often become deterred once it has been explained that the tighter restrictions on ESG-based investments (i.e. OEICs) can mean that the investment performance could be worse as scope is smaller. This can be concerning if clients challenge this area."

# Recommendations

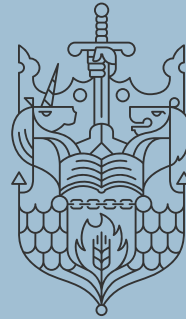
## Recommendations for the Personal Finance Society and other sector bodies

- PFS to continue to focus on providing good practice guidance to support all firms with clarity on both competence and procedural standards.
- PFS should provide a member hub of learning, guidance and wider resources related to all sustainability topics.
- PFS should encourage a dialogue with members on the topic of sustainable finance together with opportunities for members to provide recommendations / guidance / requests for further guidance / webinar topics, and support.
- PFS should ensure sustainability content is kept up to date and prominent across all relevant qualification units.
- PFS should continue to work with FCA to represent good outcomes for clients of financial advisers in any new sustainable finance regulation.
- PFS to develop guidance and training to support adoption of new SDR regime.
- PFS to review CPD programme to ensure due prominence of sustainable practice and facilitate sharing, particularly between larger and smaller firms.

## Good practice for firms and practitioners

- Firms should consider a standard level of competence for all advisers within their T&C regime and Practitioners should prioritise appropriate sustainable learning such as ESG and Sustainable Investment Advice, Advisers should not rely solely upon providers' marketing collateral for sustainable finance CPD, nor delegate responsibility entirely to paraplanners. Adviser should perform their own scrutiny over analysis where this is at business level it should be appropriately scrutinised by senior managers.
- All clients should be proactively and consistently asked about sustainable and values-based investment preferences, whether raised by the client or not, and provided with suitable education on the options available.
- Firms must balance the need for consistent practices and standardised approaches with the need for adaptation to suit individual client needs. There should not be a 'template' or a one-size-fits all advice, however all advisers should follow a common approach and the firm should be able to evidence how that approach has been varied to ensure consistent good client outcomes. The way that advice is delivered may be bespoke to the client, but the quality, efficacy, accuracy and fairness of the process must be universal and auditable.
- Different firms will need different processes and approaches to check against greenwashing, and may give responsibility to an individual or require all advisers to share responsibility. Even firms who rarely actively advertise will still need to ensure staff have an appropriate level of knowledge to recognise and guard against greenwashing within BAU communications.
- Firms should collate sales data at a transactional level to monitor trends in client responses to sustainable and values-based investment options. This is necessary in order to ensure client needs are understood and the firm is able to respond to trends in needs.

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