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Sustainable investment preferences and the green transition in Switzerland



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Zusammenfassung

Um eine nachhaltige Entwicklung zu fördern, sind umfangreiche Investitionen in Technologien für erneuerbare Energien und in die Energieeffizienz erforderlich. Derartige Großinvestitionen sind abhängig von der Unterstützung des Finanzsektors und der Finanzakteure, etwa der privaten Investoren. In diesem Zusammenhang werden nachhaltige Investitionen eine entscheidende Rolle bei der Energiewende spielen. Daher ist es von zentraler Bedeutung, Informationen über die Präferenzen und das Wissen der privaten Investoren über nachhaltige Finanzprodukte zu ermitteln.

Im Rahmen dieses Projekts wird der Markt für nachhaltige Finanzprodukte aus der Perspektive der Verbraucher in zwei Arbeitspaketen analysiert. In dem ersten Arbeitsschritt werden Präferenzen der Anleger für verschiedene Arten von nachhaltigen Finanzprodukten ermittelt. In einem zweiten Arbeitsabschnitt analysieren wir den Wissensstand über nachhaltige Geldanlagen und die Wirkung von kurzen Erklärungen.

Résumé

Pour contribuer au développement durable, il est nécessaire d'investir de manière importante dans les technologies liées aux énergies renouvelables et à l'efficacité énergétique. Ces investissements dépendent du soutien du secteur financier et des acteurs financiers, tels que les investisseurs privés. Dans ce contexte, les investissements durables joueront un rôle crucial dans la transformation du système énergétique. Pour cette raison, il est important de disposer d'informations sur les préférences et les connaissances des investisseurs privés à propos des produits financiers durables.

Dans le cadre de ce projet, nous allons analyser le marché des produits financiers durables du point de vue des consommateurs en deux modules. Dans un premier module, l'objectif principal consiste à déterminer les préférences des investisseurs pour différents types de produits financiers durables. Dans un second module, nous allons analyser le niveau de connaissance des investissements durables et l'effet de courtes interventions éducatives sur ce niveau de connaissance.

Summary

To promote a sustainable development, it is necessary to make large investments in renewable energy technologies and in energy efficiency. These investments depend on the support of the financial sector and of financial actors, such as private investors. In this context, sustainable investments will play a crucial role in the transformation of the energy system. For this reason, it is important to have information on the preferences and of the knowledge of private investors about sustainable financial products.

In this project, we will analyse the market for sustainable finance products from the consumer perspective in two work packages. In a first work-package, the main goal consists in eliciting investor preferences for different types of sustainable financial products. In a second work-package, we analyse the level of knowledge about sustainable investments and the effect of short educational interventions on this knowledge.



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1 Introduction

1.1 Background information and current situation

Promoting sustainable development implies fostering investments that consider the three dimensions of sustainable development, namely the environmental, social, and economic dimensions. To change the current energy system based on fossil fuels to a system grounded on renewable energy sources, large investments in new technologies are necessary. Financial actors, such as private and institutional investors, play a crucial role in supporting large sustainable investments through mutual funds that concentrate on sustainable firms. In this context, investments with different degrees of sustainability will play a crucial role in the transformation of the energy system.

In recent years, sustainable investments have become increasingly common on the financial market, and directing funds toward environmentally friendly assets is crucial in fostering the green transition. The scope of sustainable options is broad, especially with the recent EU taxonomy that allows for a wide range of products to be promoted as sustainable along the “ESG”-characteristics (environmental, social, and corporate governance). According to the FINMA, this complex market situation with a lack of clear rules puts consumers at risk of unsubstantiated claims about the sustainability of these investments, which is also referred to as “greenwashing” (FINMA Guidance, May 2021).

Private investors play a crucial role in this market because they directly invest in these products and influence institutional investors and policymakers with their preferences. Most consumers, however, have little knowledge of sustainable finance products, as shown by the authors in Filippini et al. (2021). Low knowledge and misperceptions about these products are associated with lower levels of sustainable investments.

1.2 Purpose of the project

To address these barriers to sustainable investments, our research project aims to analyze the knowledge and preferences for sustainable finance products and how to improve the level of knowledge about these products. In this context, obtaining information on the knowledge and perceptions of several sustainability characteristics is important. From a scientific point of view, the first step consists of identifying and applying a sound method to obtain the preferences of private investors for ESG products, which we plan to cover in Work Package 1 (WP1). In a second work package (WP2), we plan to identify through a randomized control trial if an educational treatment on sustainable finance has an impact on private investor knowledge and decision-making.

1.3 Objectives

This project will generate expected impacts at the scientific level through the working papers generated from the different modules. These will be transformed into peer-reviewed journal articles in high-impact journals. More specifically, we have designed our research program around the concept of sustainable finance literacy with the goal of providing concrete policy recommendations to the following questions:

1. Which sustainable investment options are preferred by retail investors, and are these preferences in line with the energy transition planned by the Swiss government?
2. How should we target short information and education programs to Swiss investors to address the lack of financial knowledge that influences the choice of sustainable investments?
3. How do private investors perceive different dimensions of labels for sustainable finance products?
4. What are the main concerns of private investors regarding sustainable investments, and what policies would they favor?



2 Procedures and methodology

WP1

We plan to conduct a household survey among Swiss retail investors to elicit preferences for sustainability. Moreover, we will analyze the perception of sustainability of technologies for electricity production, including controversial assets such as nuclear- and gas-power plants. In addition, we will add a geographical dimension to analyze preferences for local Swiss investments compared to global diversification.

To obtain an overview of investor preferences about labels, we will present survey respondents with different attributes covered by the Swiss Climate Scores. We plan to conduct a second survey with a unique sample of international high-net-worth impact investors to provide a broader picture of private investors. Compared to the sample of retail investors, these high-net-worth individuals have a very high experience in sustainable investing.

We propose implementing a novel survey approach that uses narratives and natural language processing (NLP). In practice, this approach uses open-ended questions to elicit respondents' first-order knowledge and preferences for the sustainability dimensions of financial products. NLP methods will allow us to extract information from these large samples of text data efficiently. This novel approach to economic analysis has been shown to be particularly powerful in eliciting the underlying reasoning behind people's preferences and their knowledge in different contexts, including in sustainable finance (Ferrario and Stantcheva, 2022; Filippini et al., 2022; Houde and Wekhof, 2023).

Along with the analysis of sustainable investment preferences, we plan, as outlined in the introduction to the proposal, to elicit with open-ended questions preferences for policy measures concerning transparency regulations for sustainable financial products. We view this as a secondary and highly complementary element to the main objective of this work package.

The preferences will be elicited through both open- and closed-ended questions. In a more granular elicitation, we will also inquire about a ranking by allocating points of sustainability sub-topics.

WP2

In this working package, we will organize a randomized control trial with a sample of private investors to analyze if a short information treatment about ESG products effectively improves knowledge about sustainable finance products. For this purpose, we will provide respondents with information on regulations concerning sustainable finance products. The approach based on short educational interventions to improve knowledge and awareness of economic issues is promising, as shown by Stantcheva (2021). The interventions will have different areas of focus within the range of what is commonly considered sustainable investments. Respondents will conduct a hypothetical investment with different sustainable mutual funds after the educational intervention.



3 Activities and results

WP1:

For work package 1, we designed the survey experiment using JavaScript. This was a critical step in our research project as it allowed us to customize our experimental design. To ensure that our survey design was effective and relevant, we sought the expertise of research professionals and conducted several pre-tests using a sample from Prolific. These pre-tests were crucial in helping us identify and fix any potential issues with the survey design before launching the final version. We also obtained ethical approval from ETH Zurich. We aim to recruit a sample of 500 participants.

In addition to designing the survey, we created a comprehensive data management plan outlining how we would collect, store, and analyze the data we collected. We further coordinated our joint work with the Center for Sustainable Finance and Private Wealth (CSP) at the University of Zurich to launch a joint survey with high-net-worth individuals.

Furthermore, we integrated a Master's student into our team to contribute to the project in the context of an MA thesis. We also finalized the contract to conduct the survey with Intervista.

WP2

For work package 2, we began by designing an educational treatment on sustainable finance based on Swiss and EU regulations on sustainable finance. This involved extensive research and consultation with experts in the field. During this process, we continuously validated the information in the educational treatment with stakeholders from the public sector, academia, and industry. This was an important step to ensure that the educational treatment was comprehensive, relevant, and useful to retail investors.

Further, we designed new sustainable finance literacy questions and validated them with experts. This was done to ensure the questions were rigorous, relevant, and aligned with the educational treatment. We also created an empirical approach that would be used to analyze the data on the effectiveness of the educational treatment. In addition, we submitted the proposal to the ethical commission of ETH Zurich.

In addition to designing the survey, we also created a comprehensive data management plan that outlined how we would collect, store, and analyze the data we collected. We aim to recruit a sample of 2000 participants for this survey.

We integrated a Ph.D. student from UZH into the project team to assist with data analysis and the preparation of research findings. We also finalized the contract to conduct the survey with Intervista.



4 Evaluation of results to date

WP1

The research design for WP1 has been completed, marking a significant milestone in the project's progress. Additionally, the survey has been technically validated, ensuring the collected data is high quality. Pre-testing has been conducted to enhance the user experience further and ensure that respondents easily understand the questions. This has proven to help identify and resolve potential issues with the survey.

WP2

In our project's second work package (WP2), we successfully created a short and concise explanation of sustainable finance that can be used in various settings such as websites, flyers, and other communication materials. This explanation is designed to be easily understandable by a wide range of audiences and will help to increase awareness and understanding of sustainable finance. Additionally, we have completed the research design phase, a crucial step in any research project. This phase involved defining the research questions, selecting appropriate research methods, and outlining the overall research plan.

5 Next steps

The following steps for the project's second year are summarised in the table below. The main work in the first six months will be conducting the surveys and analyzing the data. Then, in the second part, we will write the academic working paper and policy briefs.

When	What
November 2023- January 2024	Pre-test WP1 and WP2
	Conduct surveys with Intervista for WP1 and WP2.
January 2024-Mai 2024	Empirical Analysis
June 2024-November 2024	Writing the working paper and policy briefs



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