

# Financial advisor-investor relationship

## Mirroring survey on sustainability and investments

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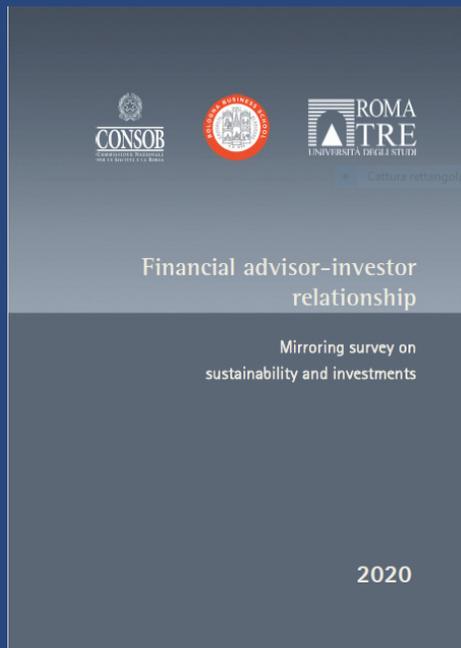
Massimo Caratelli, Università degli Studi Roma Tre

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14 December 2020

# The advisor-client relationship

## Mirroring Report



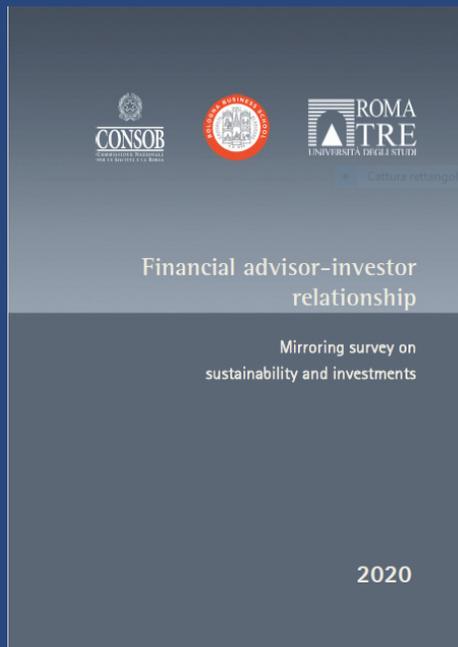
The Report is available at:  
<http://www.consob.it/web/consob-and-its-activities/report-mirroring>

The 2020 Report was prepared by:

- Nadia Linciano and Paola Soccorso (CONSOB), Massimo Caratelli (Università degli Studi Roma Tre); Joe Capobianco (Bologna Business School) contributed to the questionnaire
- The Report analyses the financial advisor-investor relationship in order to identify areas for improvement due to gaps in communication, limited knowledge and poor exchange of information
- The 2020 Report provides evidence on whether the financial advisor-investor relationship may lead to a higher consideration of the ESG factors in the individuals' investment process by delving deeper into clients' preferences on sustainability and advisors' perceptions of their clients' preferences
  - Double interview comparing the investors' stated opinions on responsible investment products with their advisors' perceptions of the clients' opinions (also mirroring survey)
  - Matching indicator of the potential gaps in the advisor-investor relationship that could be closed through a better communication between the parties involved

*The ideas and positions in this presentation are authors' personal views and cannot be attributed to CONSOB.*

# Outline and objectives

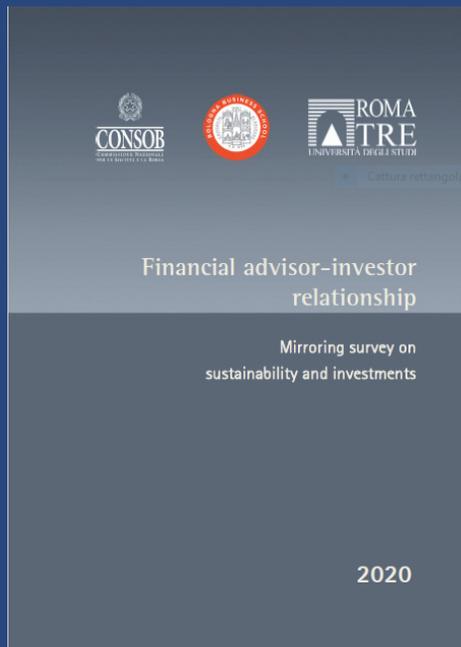


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- Four Sections plus Methodological Notes
  - Financial advisor-investor interaction
  - Sustainability: attitudes and knowledge of advisors and investors
  - Responsible investments: attitudes, knowledge and holdings
  - Responsible investments: the role of financial advisors
- The Report is based on a questionnaire consisting of 27 closed-answer questions (11 single answer, 12 multiple answers and 4 Likert-scale answers), some socio-demographic questions and three questions on financial knowledge
- The questionnaire was administered in January 2020 to a sample of financial advisors and a sample of investors
  - **215** financial advisors were sampled from the population of 10 thousand financial advisors with active mandates representing the most important investment advisory networks
  - **617** investors were sampled from about 1,300 clients indicated by the advisors selected for the interview

The advisor-client  
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Mirroring Report



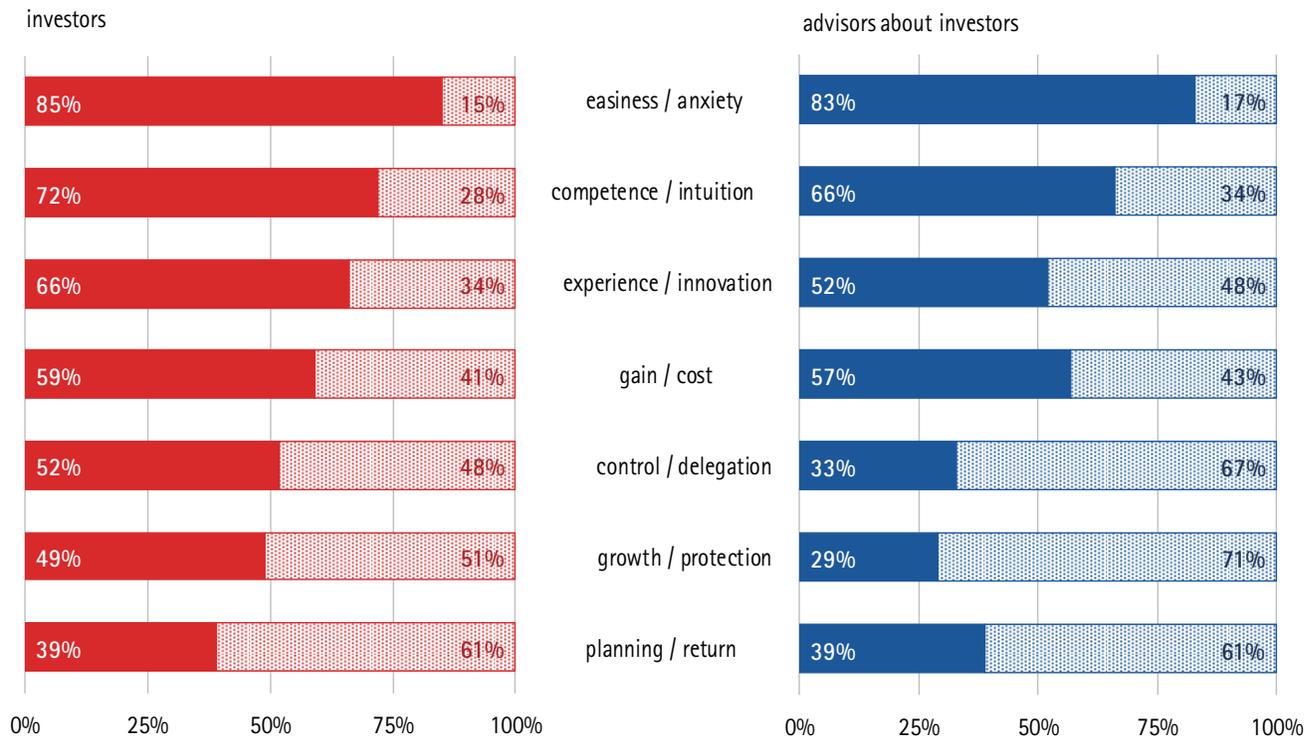
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# Financial advisor-investor interaction

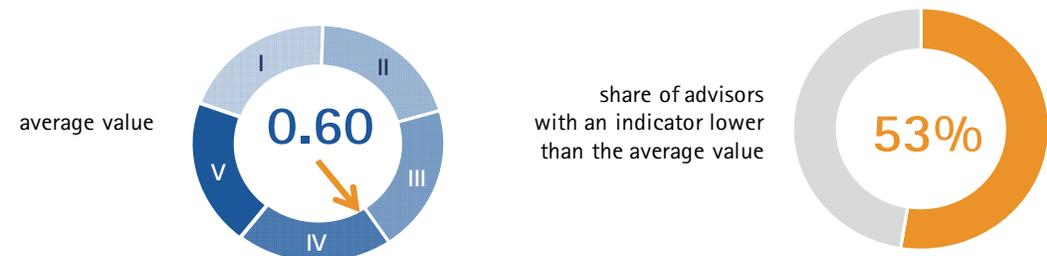
# The words describing the distinctive features of financial advice

Among additional features: investors indicated 'competence' and 'experience' of the professional advisors pointed to 'protection' and 'delegation'

'Easiness' is the notion most frequently associated with the service by the majority of both investors and professionals



## Matching indicator of financial advisors' and investors' responses

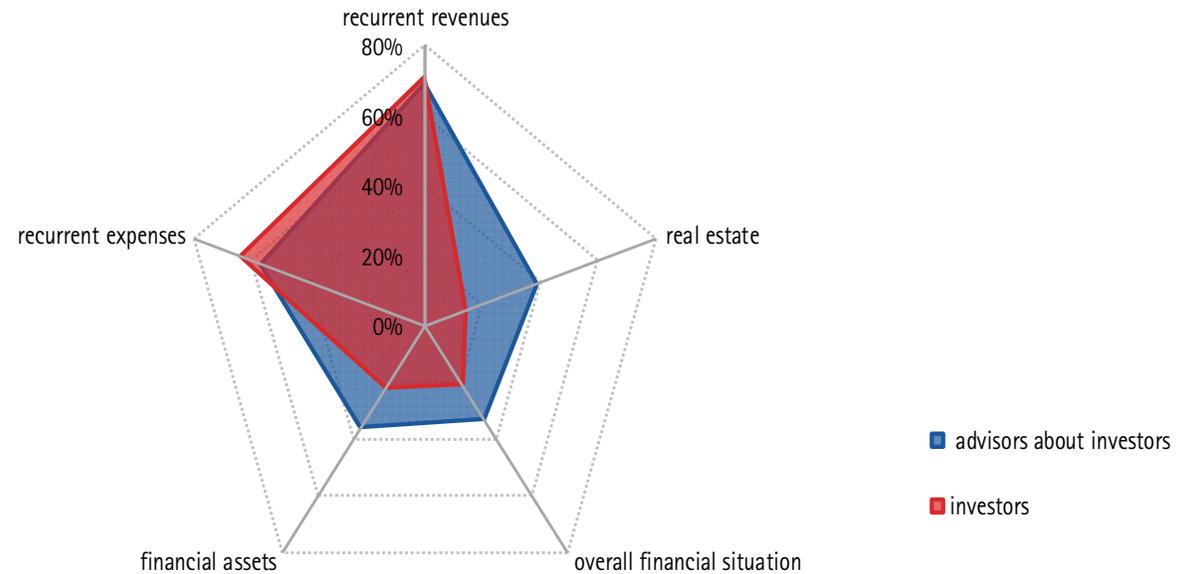


Source: Fig. 1.1

# Overview of personal financial situation

Financial advisors seem to over-estimate the skills of their clients, who are mainly focused on recurrent revenues and expenses

The mirroring survey explored also **investors' capability to develop an overall view of their financial situation**



## Matching indicator of financial advisors' and investors' responses

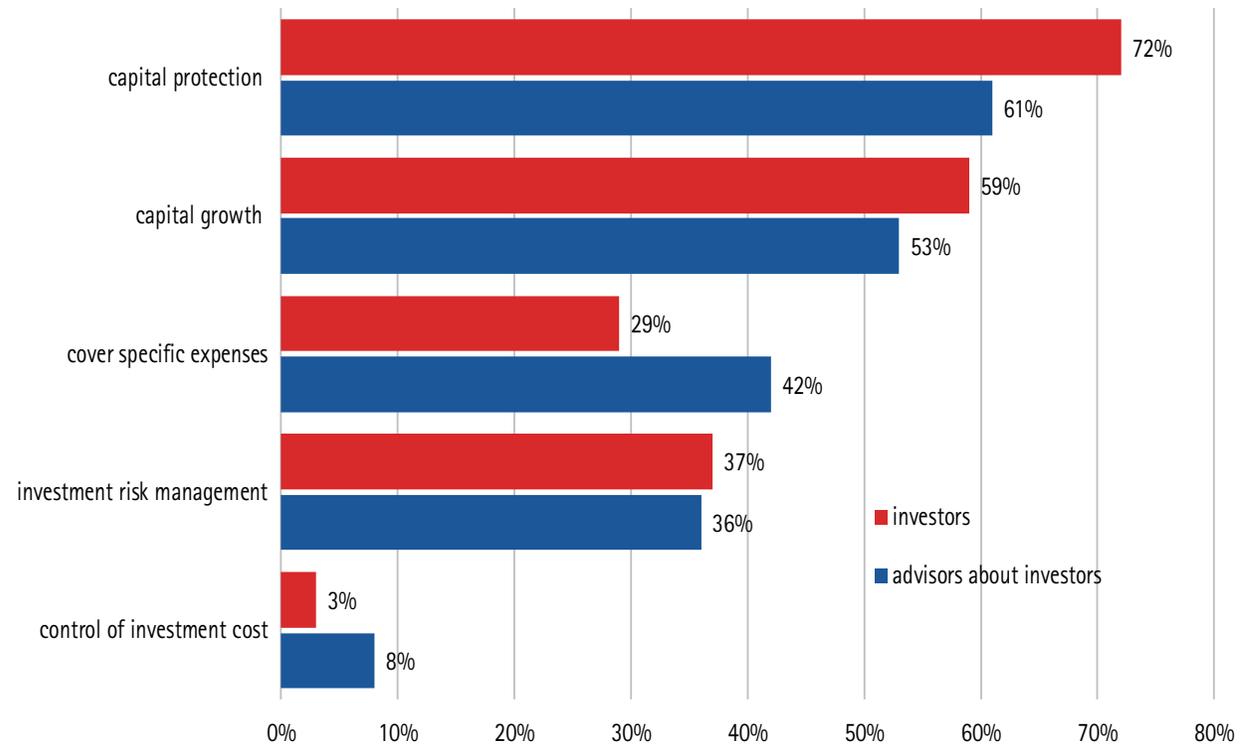


Source: Fig. 1.3

# Investment goals

Capital protection comes first and foremost for both groups of respondents, followed by capital growth

The advisors' perception of **investors' investment goals** generally appears to be in line with what the investors themselves have stated



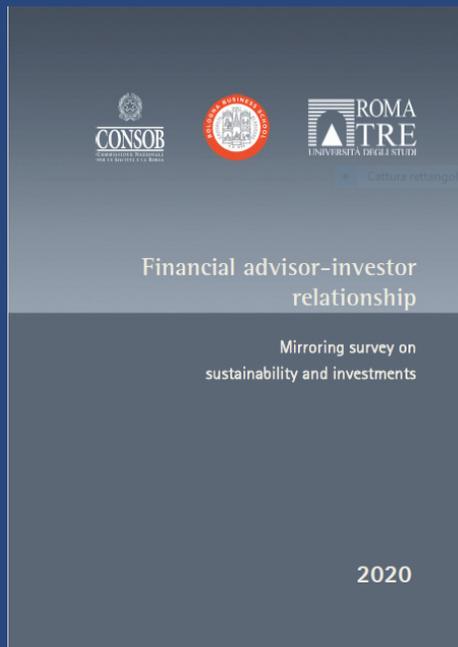
Matching indicator of financial advisors' and investors' responses



Source: Fig. 1.4

The advisor-client  
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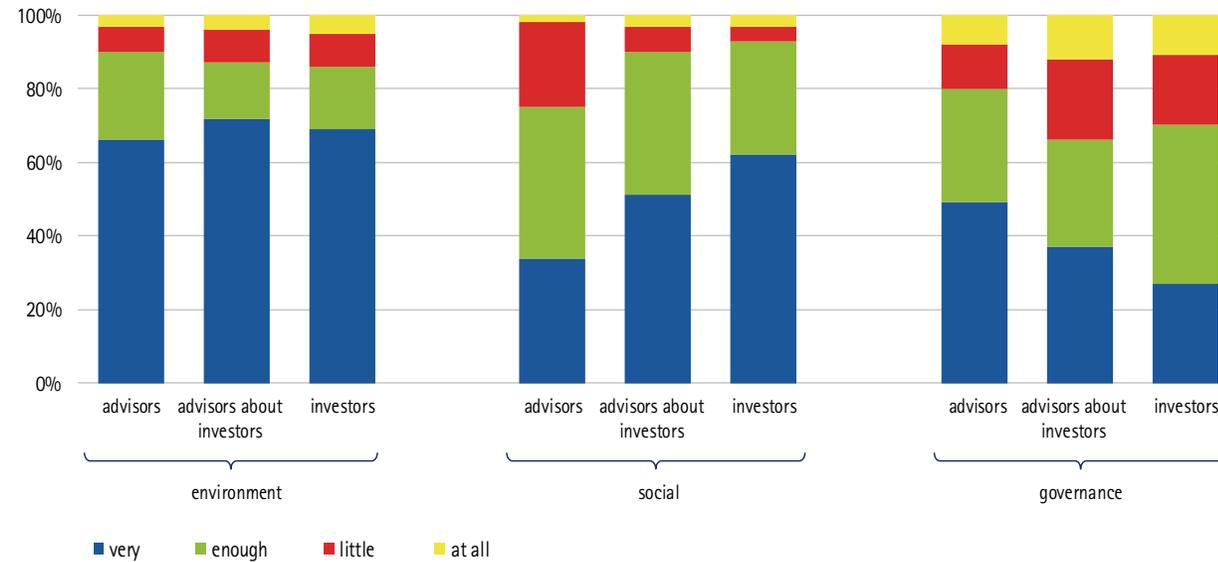
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# Sustainability: attitudes and knowledge of advisors and investors

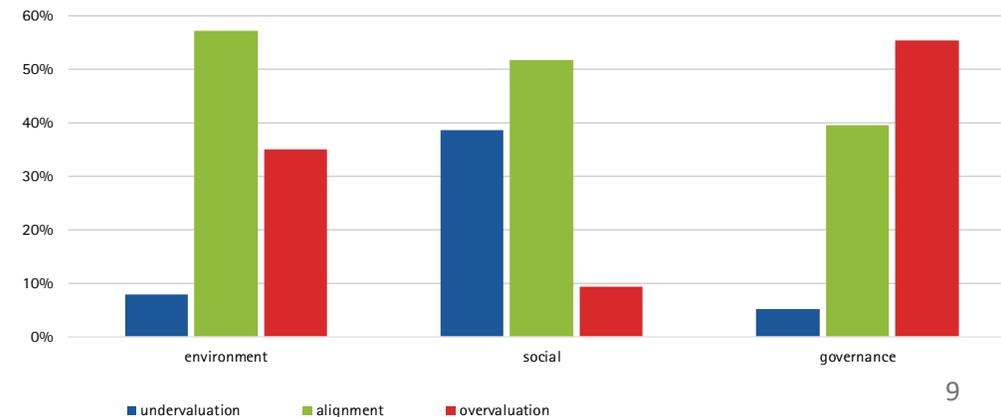
# Importance given to ESG factors

Financial advisors perceive the importance of environment to investors while overestimating the importance attributed to governance

**Environment** is important for the majority of respondents (both investors and financial advisors), while **social** issues appear to be more relevant for investors and **governance** for professionals



## Matching indicator of financial advisors' and investors' responses

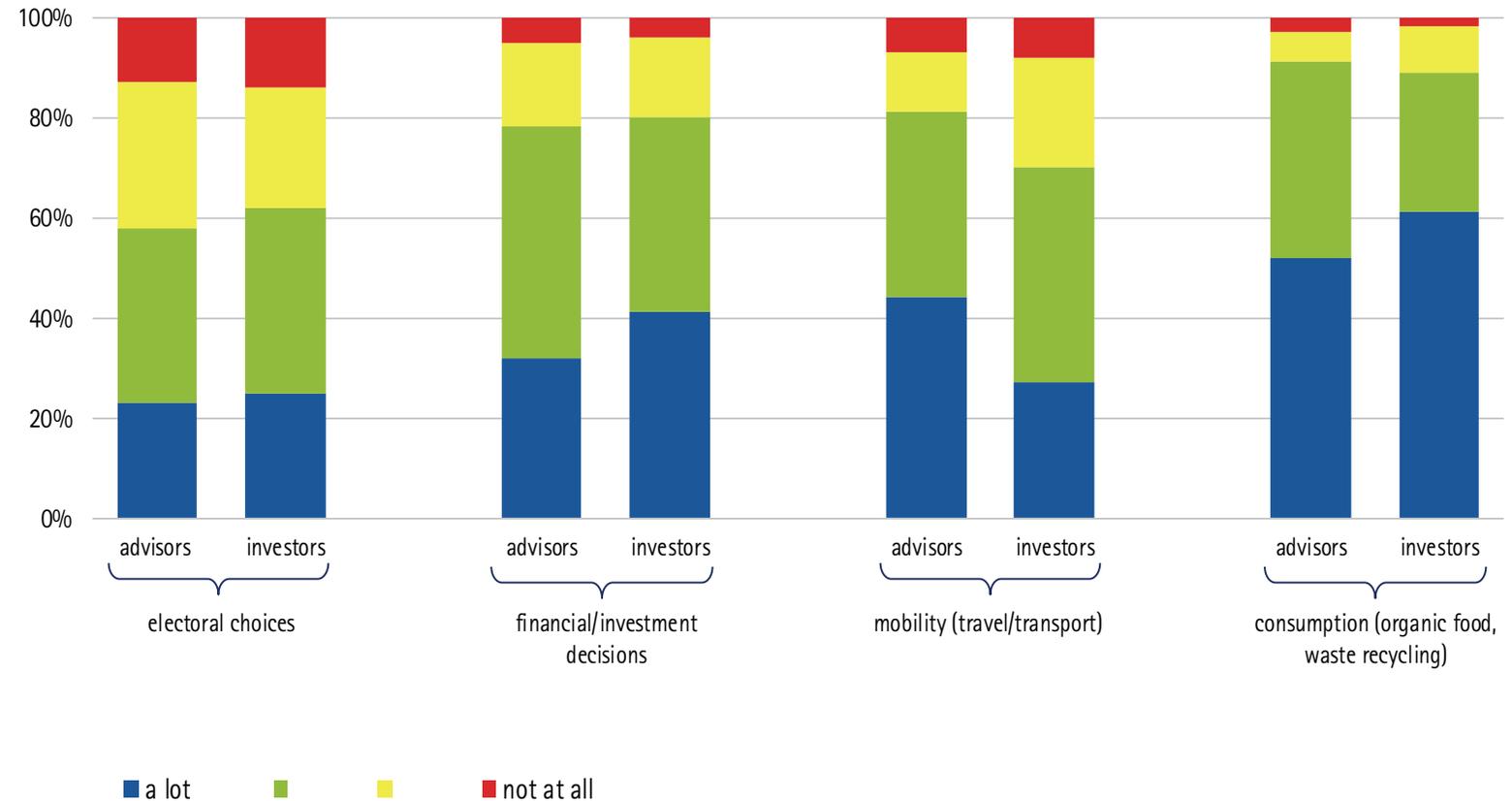


Source: Fig. 2.1

# Consideration of ESG factors in individual choices

40% of investors state that they take environmental and social impacts of their behaviour into account very much when making financial and investment decisions

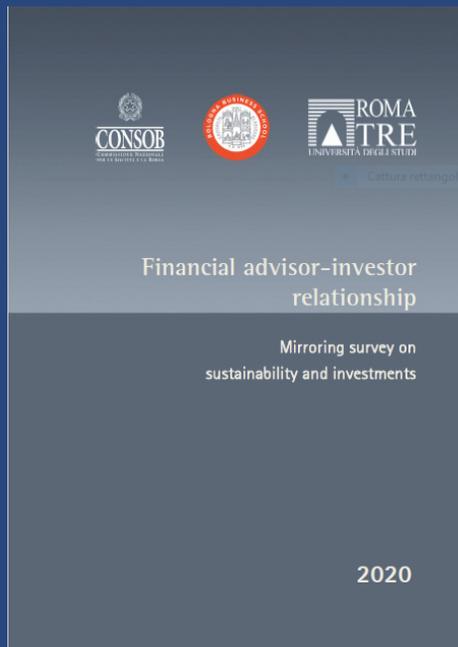
## Do you take into account the environmental and/or social consequences of your habits/choices?



Source: Fig. 2.3

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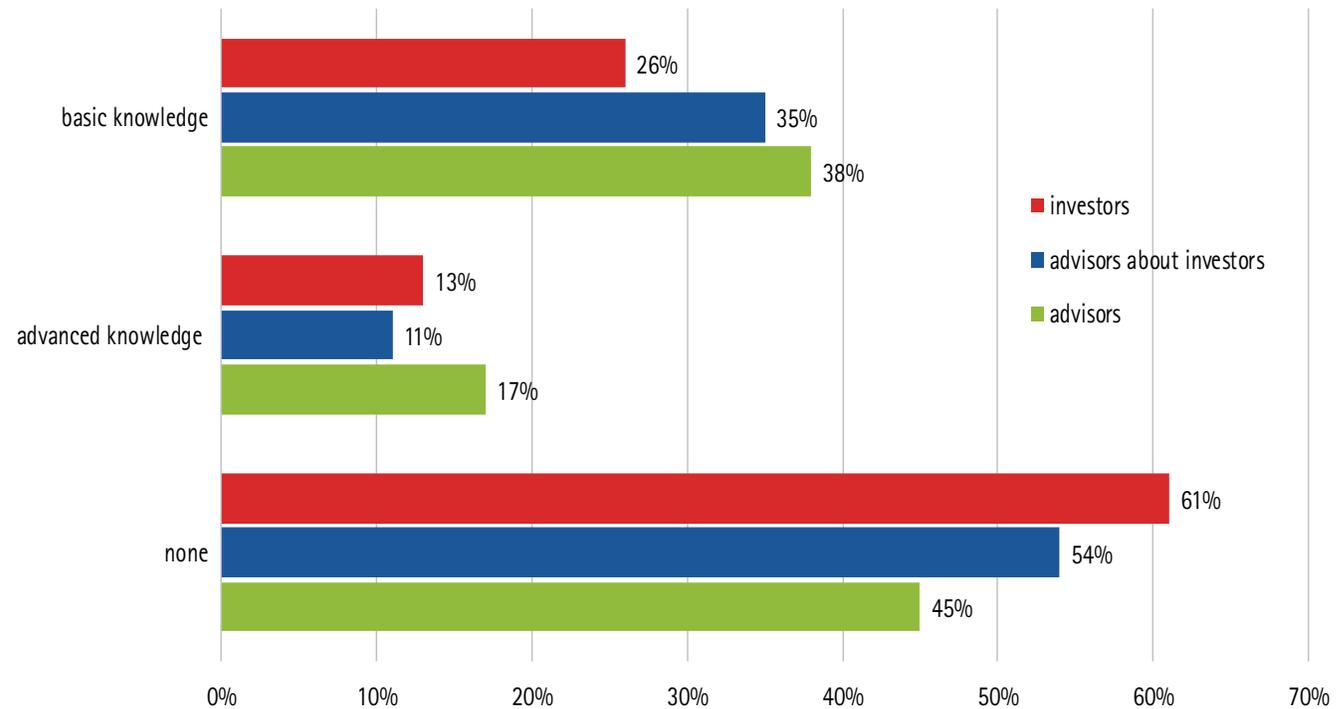
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# Responsible investments: attitudes, knowledge and holdings

# Self-assessed knowledge of responsible financial investments

Socially responsible investing is the practice of investing in economic activities that have positive environmental/social impacts and relies on good governance practices.

26% of investors report to have a **basic knowledge of responsible financial investments**; only 13% consider themselves well informed



## Matching indicator of financial advisors' and investors' responses

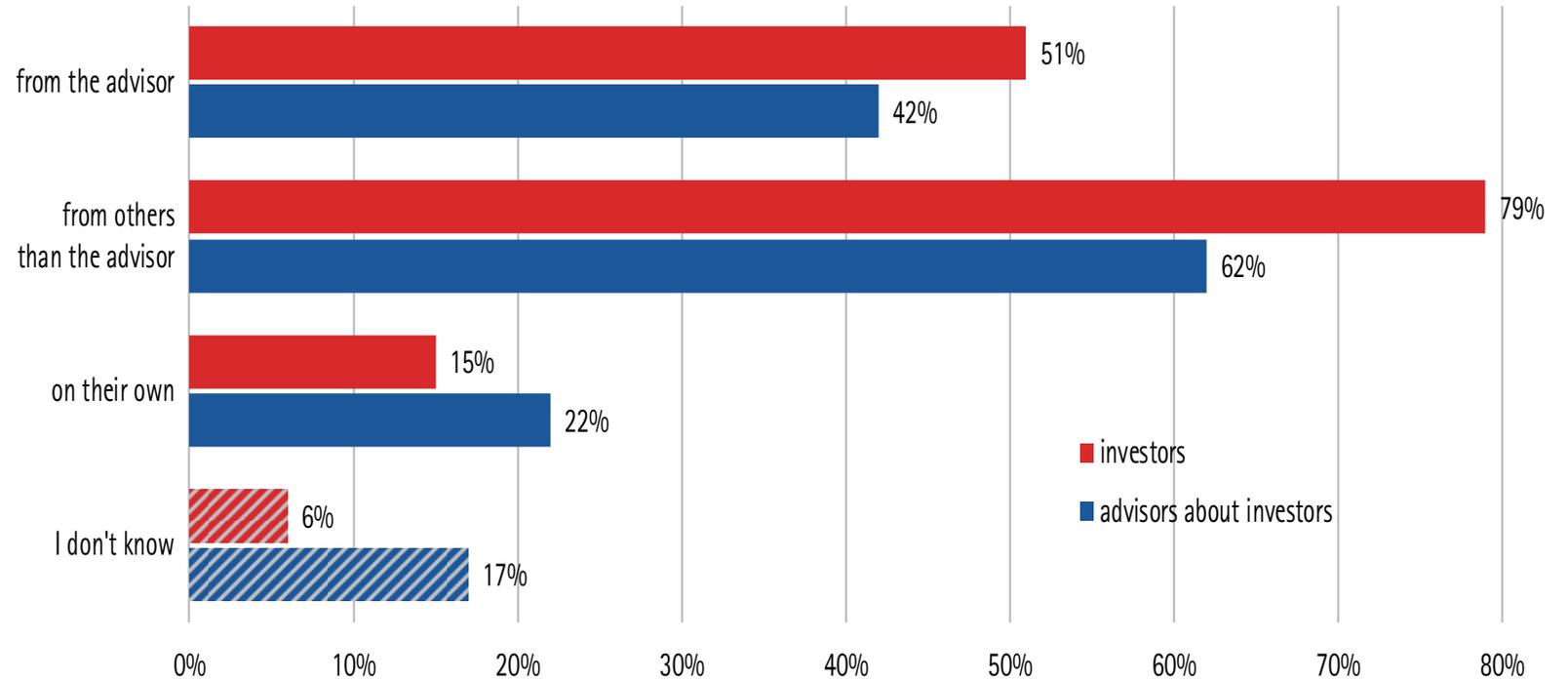


Source: Fig. 3.1

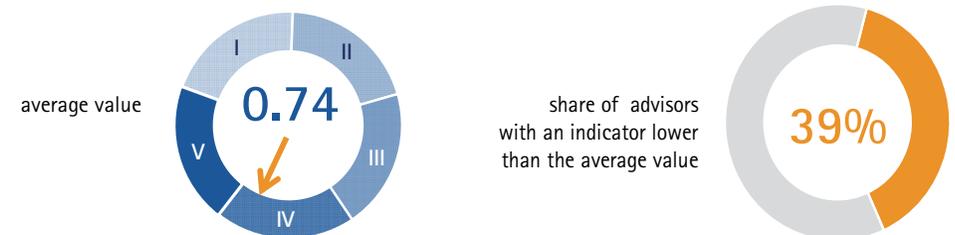
# Source of information on SRIs

Investors learned about SRIs from their financial advisors in 51% of cases, from others in 79% of cases and on their own in 15% of cases

## Clients learned about SRIs ...



## Matching indicator of financial advisors' and investors' responses

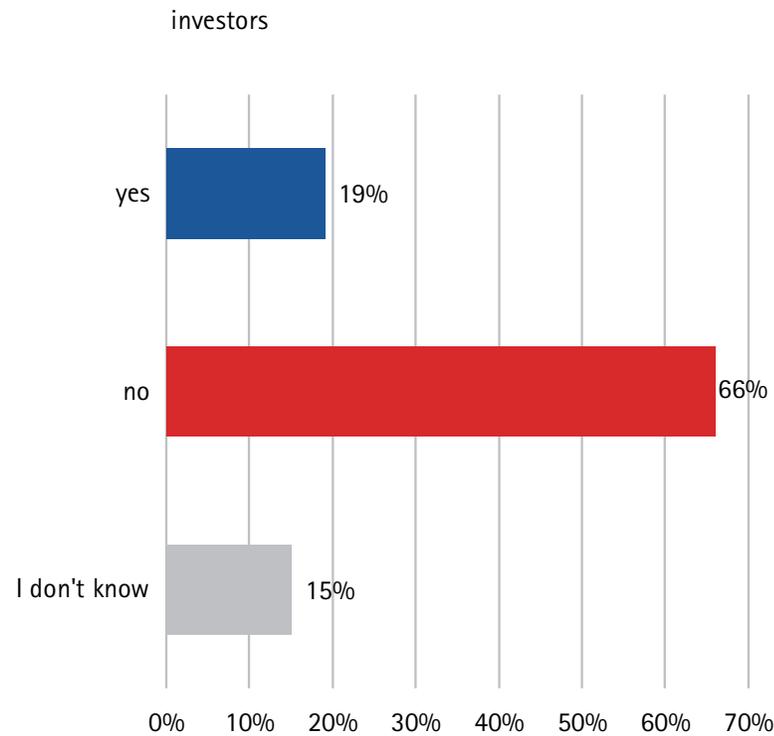


Source: Fig. 3.2

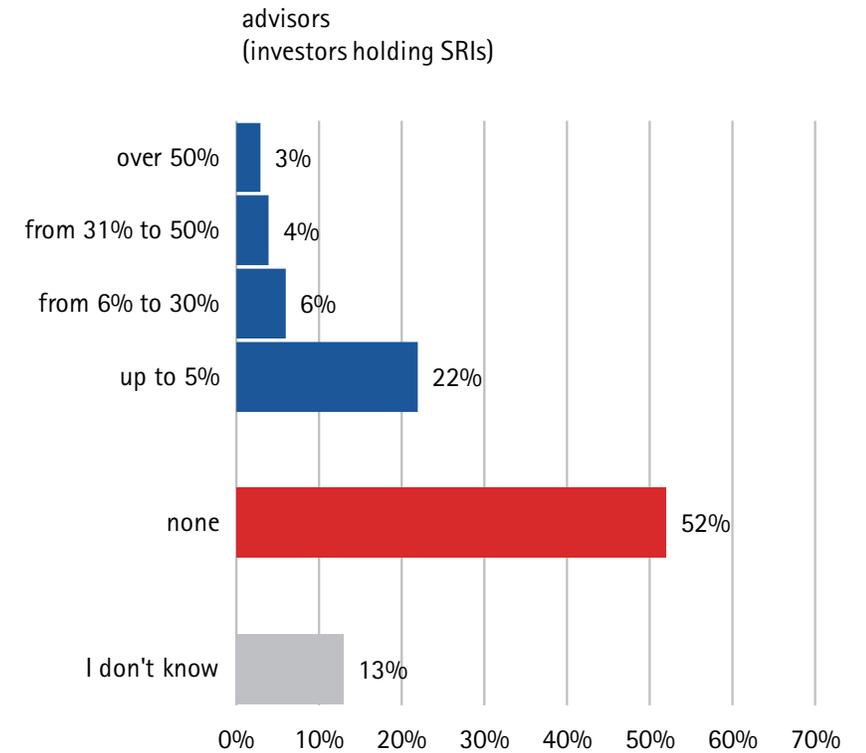
# Self-reported holding of SRIs

Responsible financial investments are not very widespread

## Do you have responsible financial investments?



## How many of your clients have responsible financial investments in their portfolio in percentage terms?

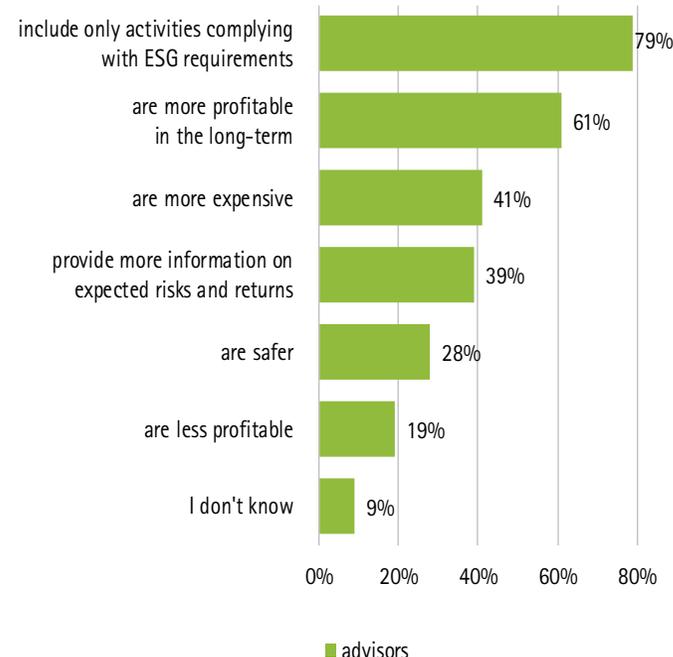
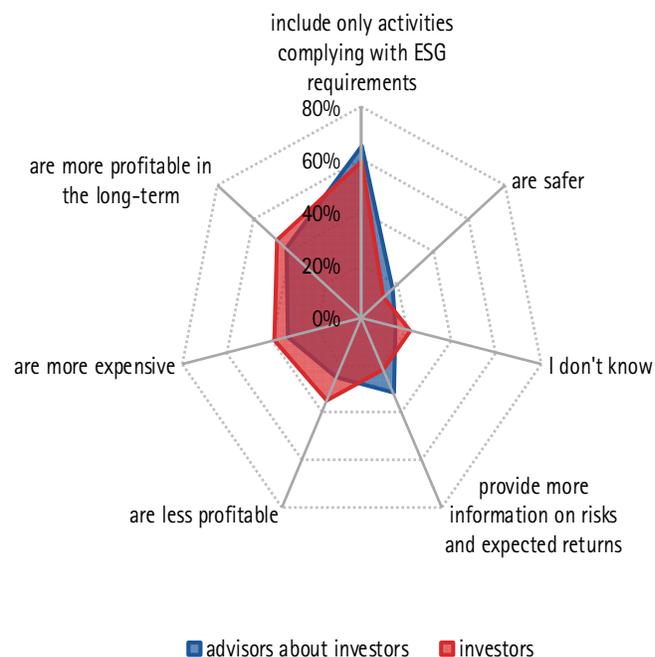


Source: Fig. 3.3

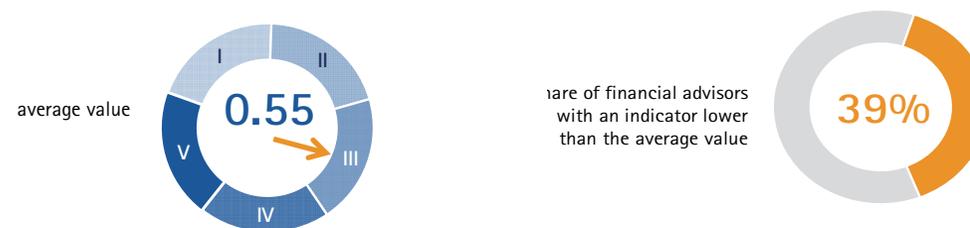
# Perceived characteristics of SRIs

Investors point out the full compliance with ESG requirements (59%) and the long-term horizon of returns (47%), followed by high costs (47%)

## Compared to investment products that neglect ESG factors, responsible financial investments ...



## Matching indicator of financial advisors' and investors' responses

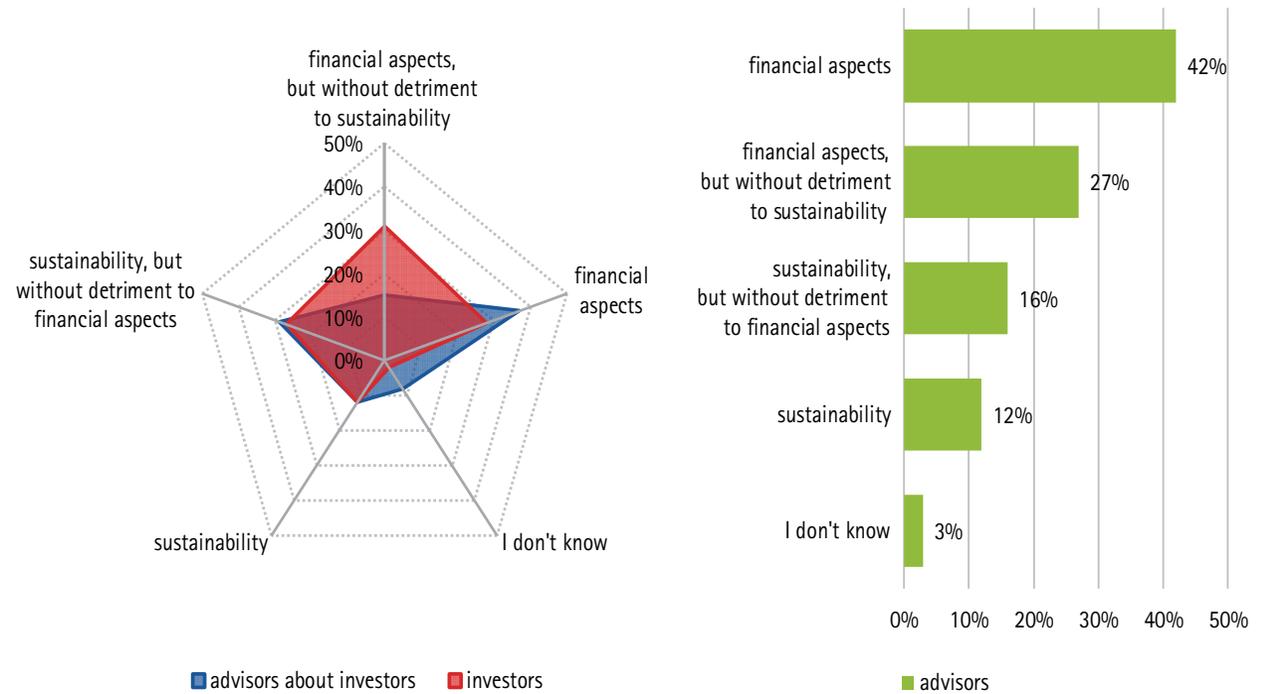


Source: Fig. 3.4

# Priority in financial choices

Financial personality versus value personality

Among financial aspects (return, risk, costs) and sustainability factors (impact on the environment, elimination of inequalities, compliance with anti-corruption rules, etc.), the priority in investment choices must go to...



## Matching indicator of financial advisors' and investors' responses

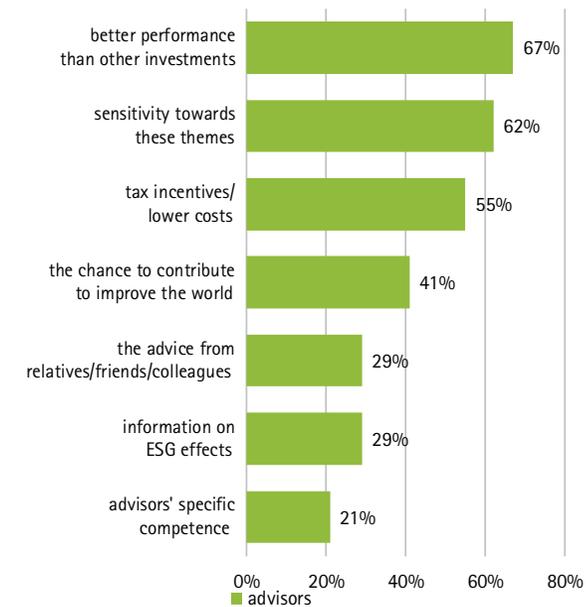
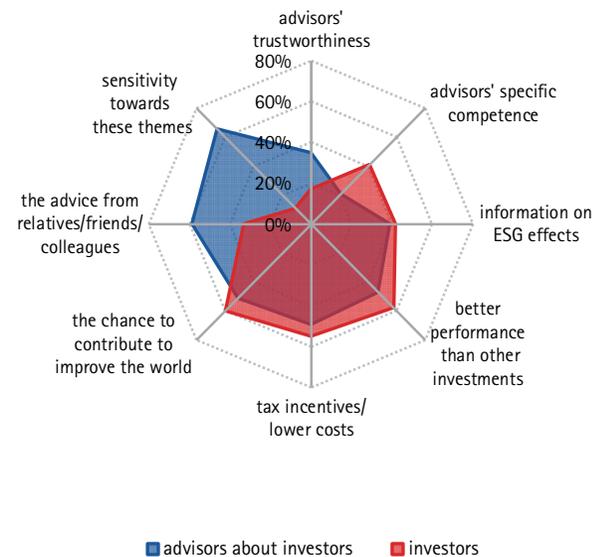


Source: Fig. 3.5

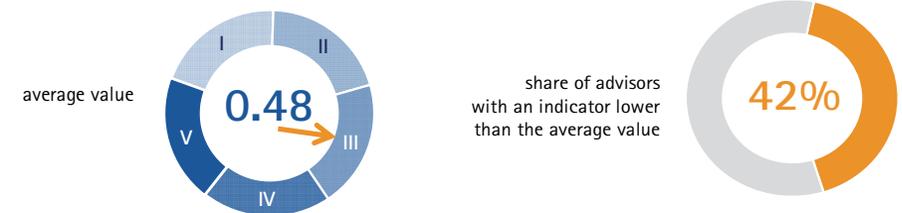
# Drivers of investments in responsible products

Advisors overestimate the importance of high sensitivity to the environmental and social factors, the advice of relatives/friends/colleagues and trust in advisor/bank of reference

The possibility to 'help improve the world' is the answer recording the highest frequency (60%), followed by better returns and lower tax/cost than those of alternative options (respectively, 58% and 55%), the availability of information on ESG impact (42%) and the recommendation by a specifically trained advisor (41%)



## Matching indicator of financial advisors' and investors' responses



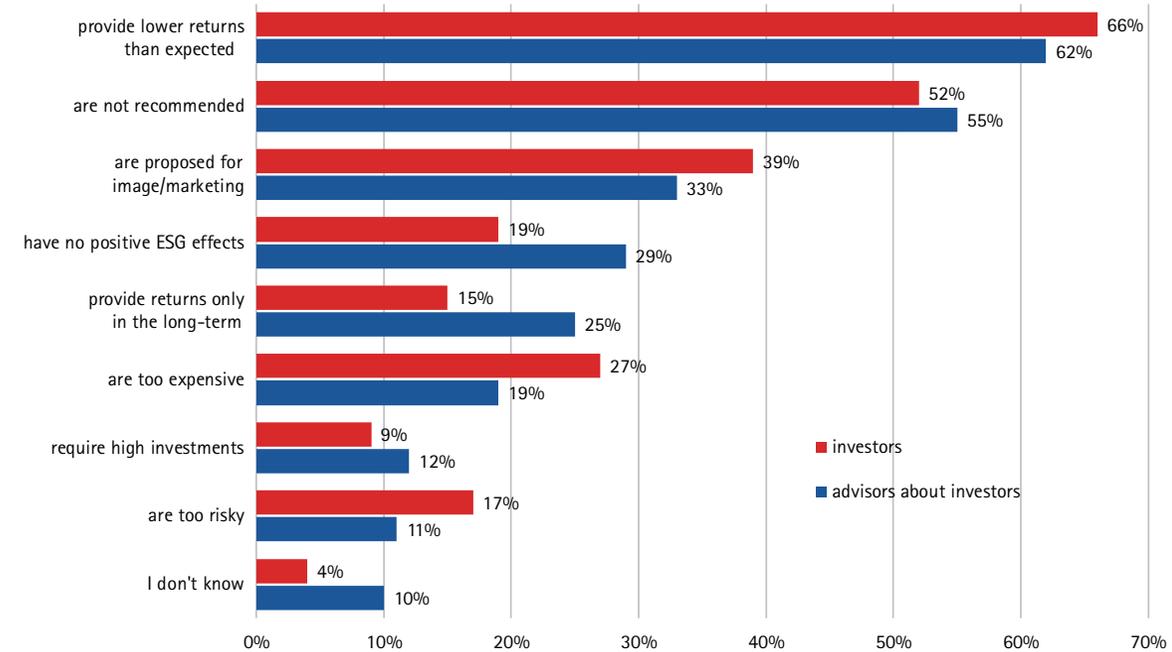
Source: Fig. 3.6

# Deterrents from of investments in responsible products

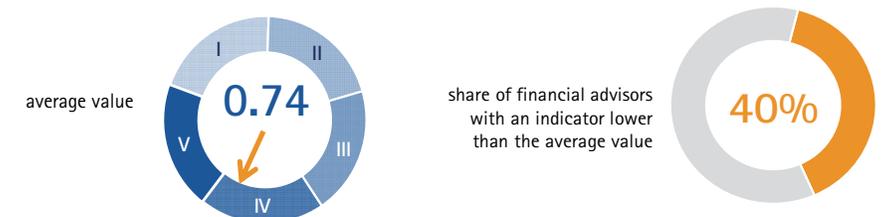
A further deterrent highlighted by investors is the cost, which financial advisors do not perceive as one of the most relevant features

## Respondents (both investors and advisors) point out potentially lower than expected returns, followed by the lack of a commercial proposal and the fear of greenwashing

Investors do not invest in SRIs because ...



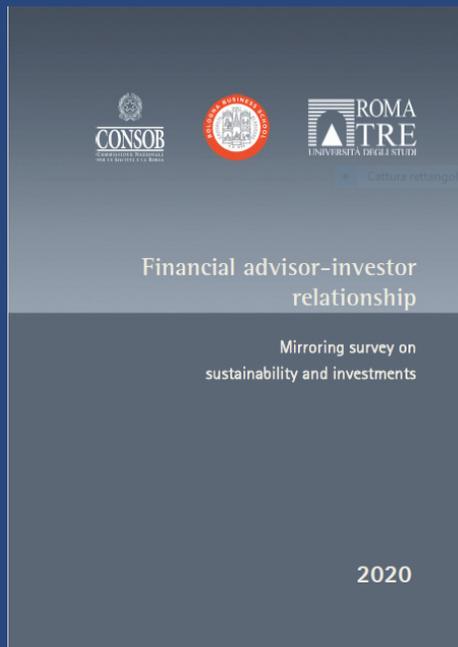
## Matching indicator of financial advisors' and investors' responses



Source: Fig. 3.7

The advisor-client  
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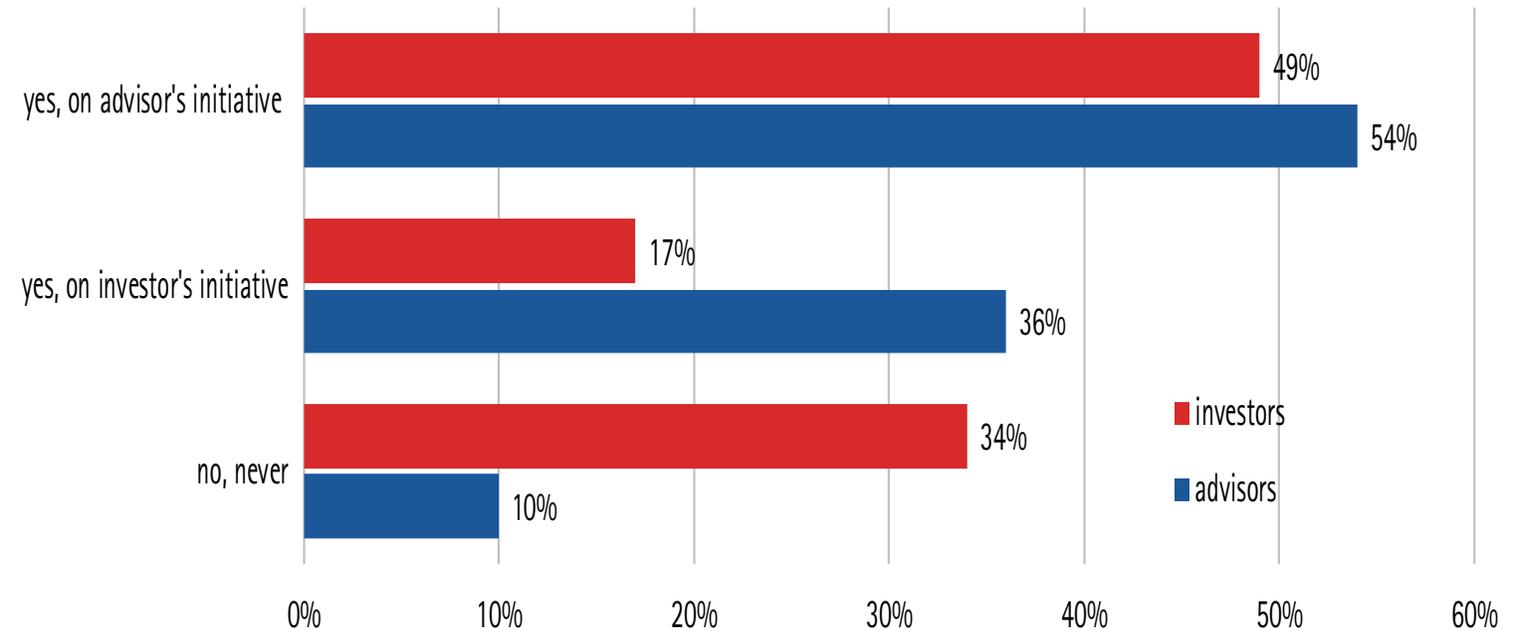
# Responsible investments: the role of financial advisors

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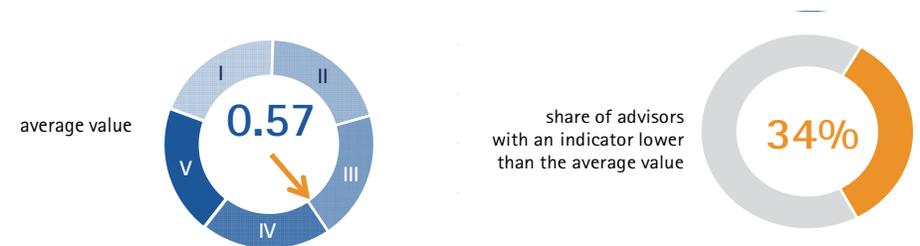
# Proposal of SRIs to investors

Investors' and professionals' views diverge with respect to the proactivity of the financial advisor in recommending sustainable investments

Has your advisor ever recommended SRIs to you?  
Do you recommend SRIs to your clients?



## Matching indicator of financial advisors' and investors' responses



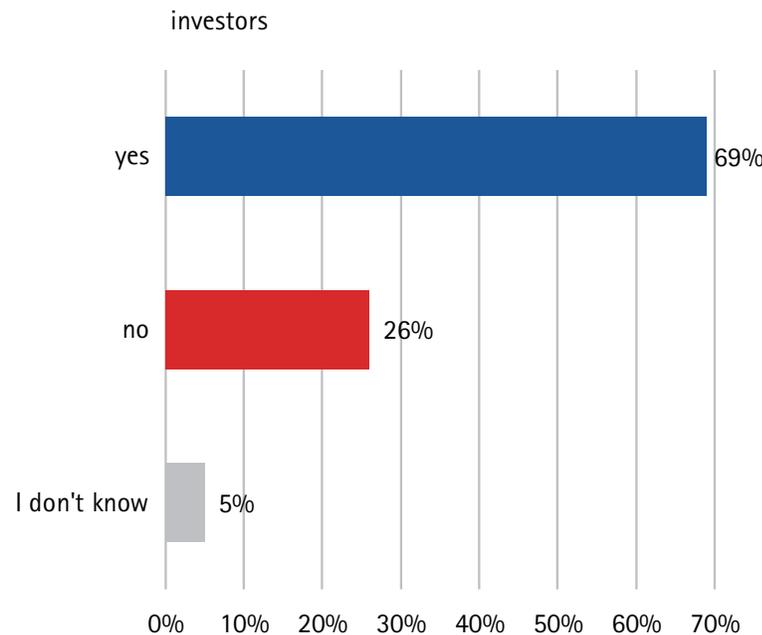
Source: Fig. 4.1

# Interest in receiving information on SRIs

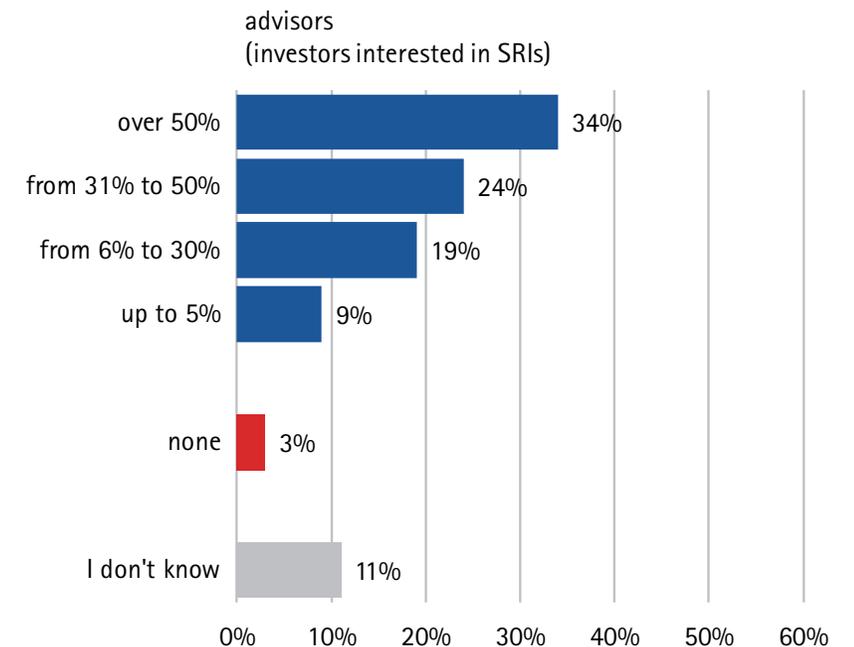
Only 34% of advisors believe that most of their investors are willing to receive information on SRIs

The importance attached by investors to ESG factors is accompanied by attention to responsible products, as shown by **the interest in receiving information about SRIs by 69% of the investors**

Are you interested in having information on responsible financial investments?



How many of your clients may be interested in having information on responsible financial investments in percentage terms?



Source: Fig. 4.2

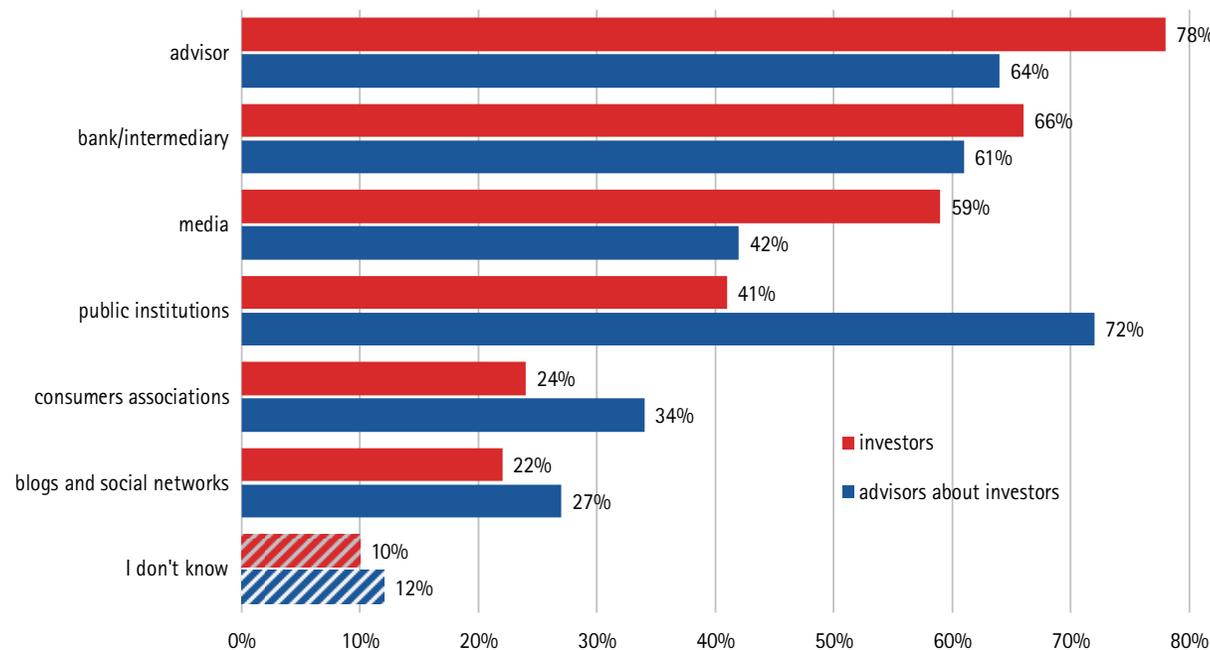
# Preferences on information sources

While 72% of advisors believe that their clients refer primarily to public institutions, investors indicate advisors in 78% of cases and banks in 66% of cases

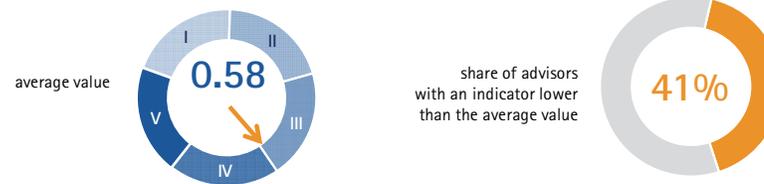
A certain misalignment between investors and advisors also emerges with regard to the information channels preferred by investors

How would you prefer to receive information on SRIs?

How do you think your clients would prefer to receive information on SRIs?



## Matching indicator of financial advisors' and investors' responses

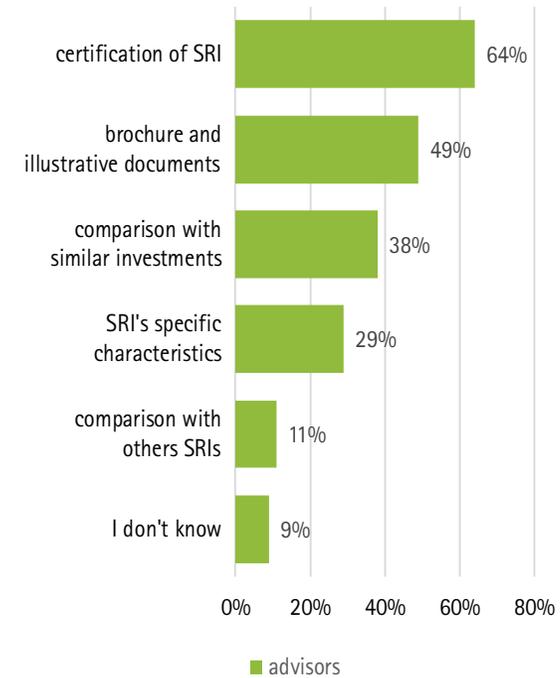
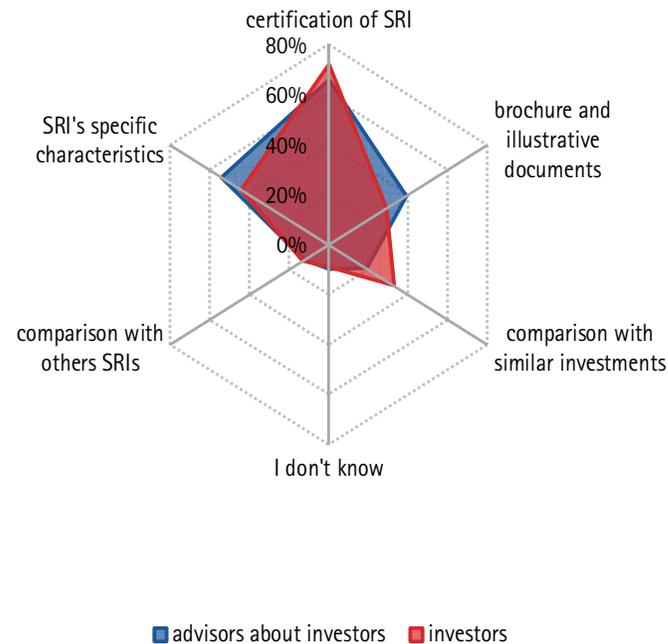


Source: Fig. 4.3

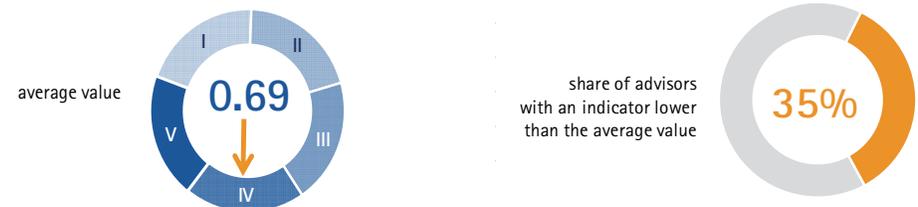
# Useful information to invest in SRIs

Advisors correctly perceive investors' preference for a synthetic indicator or a certification of the SRIs

A greater matching across the two samples is recorded with respect to the type of information regarded as useful by investors



## Matching indicator of financial advisors' and investors' responses



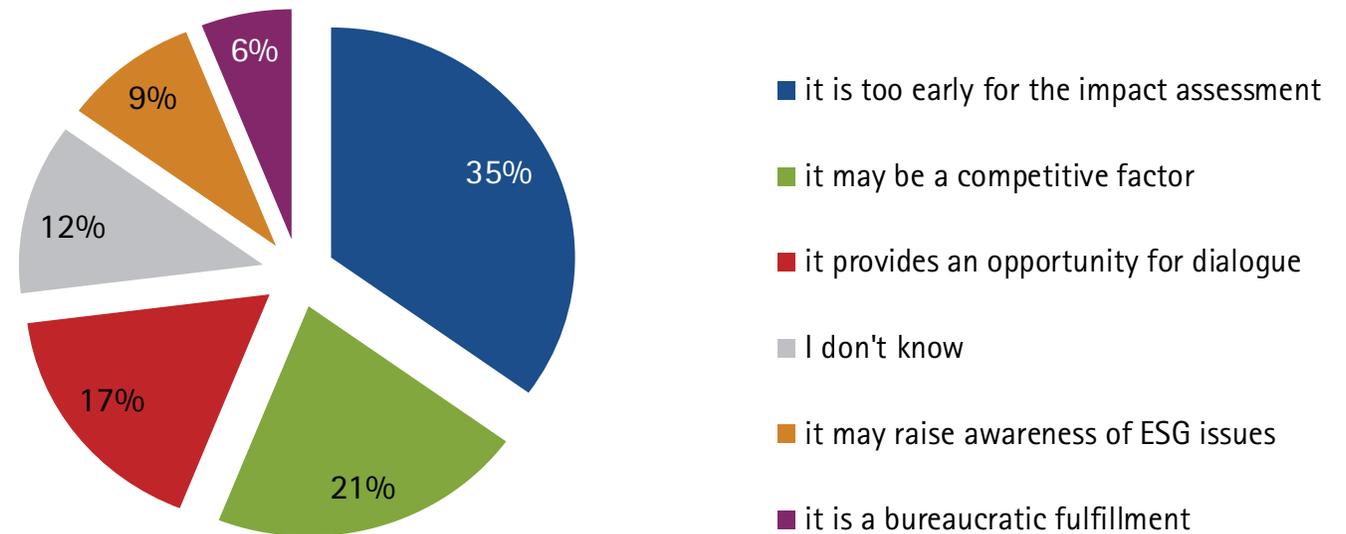
Source: Fig. 4.4

# Investor ESG preferences and suitability assessment

47% of the advisors catch the potential of the ESMA recommendation; 35% think it is too early to appreciate its value; 6% consider it as a bureaucratic fulfillment

## Advisors do not seem to appreciate the importance of eliciting sustainability preferences during the suitability assessment

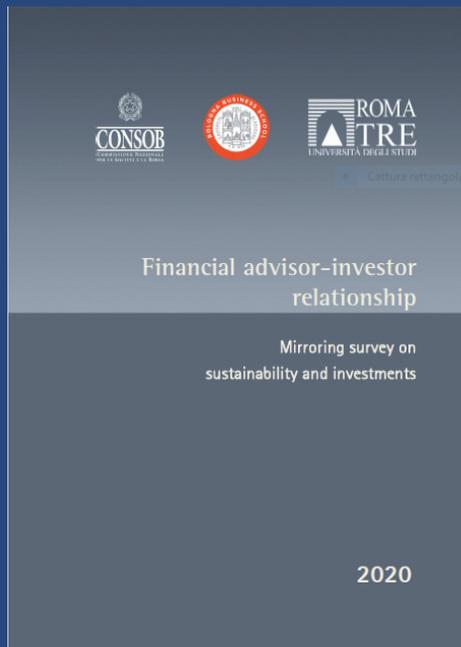
As for the elicitation of investors' preferences on ESG factors recommended by the ESMA guidelines on suitability assessment ...



Source: Fig. 4.5

# The advisor-client relationship

## Mirroring Report



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To sum up:

- The Report highlights some important areas for improvement in the financial advisor-investor communication
- Beyond the misalignment with respect to some features associated with financial advice and the ability of investors to gain an overall view of their finances, professionals miss – or only partially catch – investor views on a number of important issues
  - the motivation prompting responsible product holding
  - the information role investors attribute to advisors
  - the importance of the elicitation of ESG preferences during the suitability assessment
- A caveat: having been conducted in January 2020, the survey does not reflect the renewed debate on circular economy and sustainable finance stimulated by the Covid-19 pandemic
  - This debate is likely to increasingly involve the financial industry and to prompt significant developments in the communication between the advisors and their clients regarding ESG products, which might be captured by a second wave of the present survey



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*Thank you for your attention!*

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