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Sustainability information and German retail investors' investment preferences: A Behavioural Finance perspective.

Climate change constitutes the defining crisis of our time (United Nations, 2021). As indicated by the latest Intergovernmental Panel on Climate Change (IPCC) report, climate change evolves even faster than anticipated. The UN's 2030 Sustainable Development Agenda as well as the Paris Agreement on climate change outline a plan for a global transformation towards environmental and socio-economic sustainability within the planetary boundaries. As set forth in both agendas, realizing the outlined global transformation requires – amongst others – large-scale investments in various economic sectors including energy, construction, transportation, water, waste and many more. According to leading stakeholders, these sectors are considered essential to arrive at a more resource-efficient, decarbonised as well as circular economy, that promotes social participation and enforces human rights alongside the value chain (European Commission, 2020). Following the Paris agreement, which places considerable weight on the need to make "financial flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development" (UNFCCC, 2015, p. 1), finance takes on a key role in tackling climate change. As specified in the agreement, increased financial resources should target climate change adaptation and mitigation in consideration of country-specific strategies and development needs (UNFCCC, 2015).

Against recent inclines of investments volumes through various sources, there is considerable agreement on the fact that current investment levels are insufficient to reach defined sustainability targets. Consequently, it is argued that tackling the investment gab does to a great extend require raising private finance as investment targets cannot be met by public finance only (Campiglio et al., 2018). Considering the European sustainable and socially responsible investment asset breakdown by private investor type, it becomes evident that institutional investors are key drivers of sustainable investment and do by far exceed retail investors' investment volume. However, with the retail sector experiencing an increase in demand of over 800% in recent years, European retail investors currently account for around 30% of sustainable assets. Sustaining the argument that retail investors take on a crucial role in reaching sustainable investment targets (The 2° Investing Initiative, 2021), there is strong support for the existence of 'sustainable private capital' that yet remains unchanneled.

Building on behavioural finance as a theoretical foundation, I seek to investigate the effect of different fund sustainability information on German retail investors' willingness to invest sustainably. Therefore, I assess preferences for product information presented via a sustainability certification scheme in terms of a fund rating, and comprehensive textual information in form of sustainability report. Since mutual funds currently constitute the dominating sustainable investment form, which are available to retail investors in Germany, I consider investor preferences for mutual funds. Thereby, I want to advance understanding on German retail investor's willingness to invest sustainably by assessing both strength of preferences as well as 'willingness to pay' for the respective information type.

I pursue my research interest by facilitating quantitative data collection as foundation to the analysis. Aimed for respondents are individuals of full age that currently reside in Germany that have previously engaged in financial decision making. The data collection is conducted by means of an online Discrete Choice Experiment (DCE) referring to hypothetical investment decisions regarding mutual funds as well as a questionnaire. While the DCE seeks to advance understanding of respondents' preferences for fund characteristics with particular focus on the sustainable fund rating and report, the questionnaire aims to retrieve additional respondent characteristics that are deemed relevant. To analyse the importance of the different fund characteristics for the choice among different mutual funds, I employ a mixed logit model, which enables connecting the probability of choice among the funds presented to particular characteristics of each fund. In sum, I investigate the research question "How do different types of sustainable fund information affect German retail investors' willingness to invest sustainably?".

Building on insights from behavioural economics, which suggest differences in cognitive thinking styles to influence information processing and valuation, this investigation adds to the existing literature by advancing the understanding of heuristics at play in the context of retail investor decision making and sustainable investing. By differentiating respondents by the extent to which they employ cognitive reflection, it seeks to confirm partially existing evidence on certification schemes to be an effective tool in promoting sustainable investment amongst investors. Precisely, I aim to determine whether some investors shown to be less affected by a certification scheme may require more specific information to be comfortable with investing sustainably. Further, I seek to add to the nudging literature by testing the potential of different fund sustainability information as policy tool in nudging retail investors towards investing sustainably. Finally, this work intends to advance understanding on differences in the effect of sustainability information across previous investment behaviour. Since previous investigations only considered differences in the reception of certification schemes by investor category, my project contributes to existing literature by extending the analysis to two different types of sustainability information. Behaviour categories differentiate between investors who already invest sustainably, are interested in doing so in the future, or have not yet invested sustainably nor are interested to do so in the future (referred to as conventional investors).

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