Emergence of more sustainable insurance products and integration of sustainability factors, risks and preferences into the IDD

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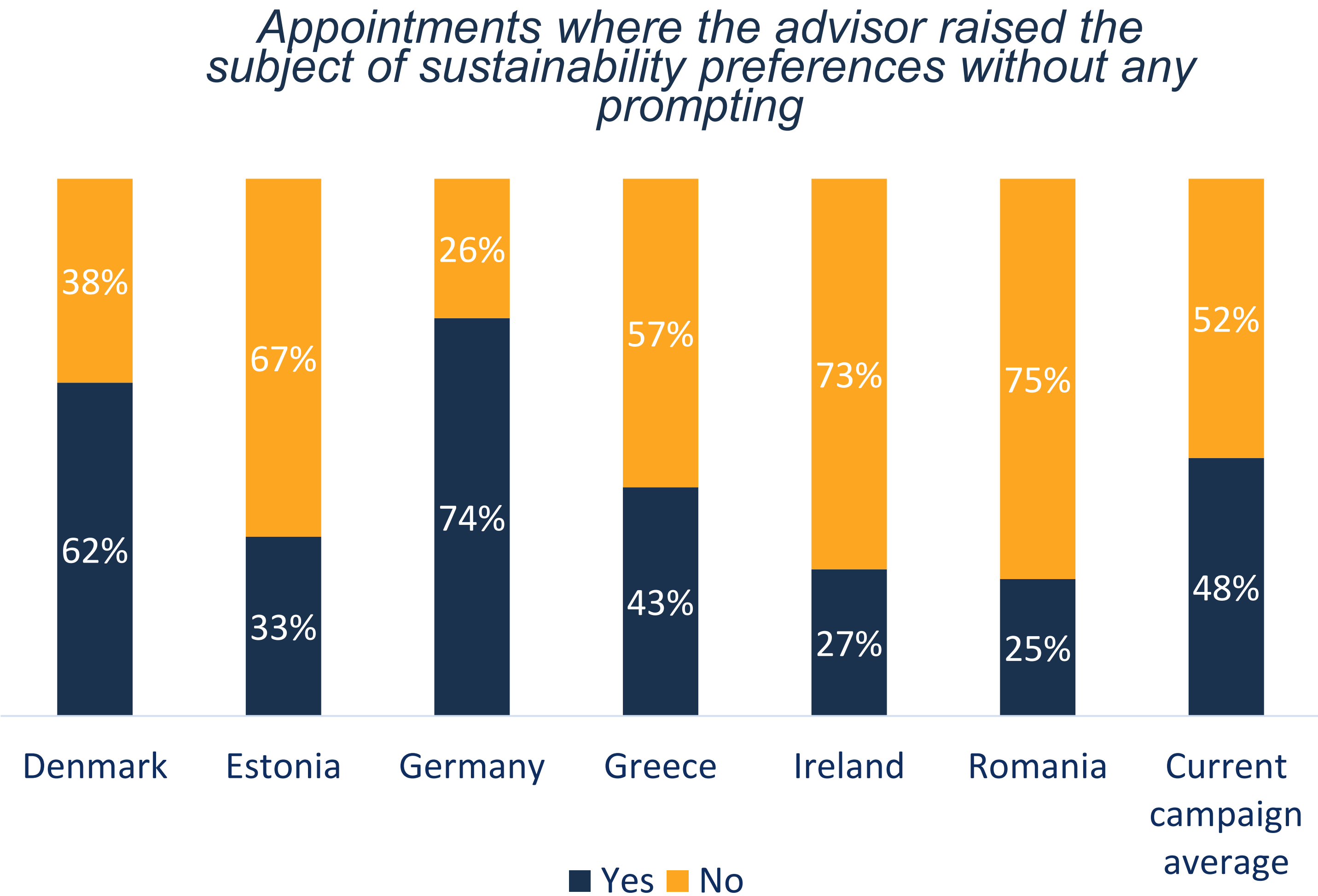
Background

- Commission Delegated Regulation (EU) 2021/1257 introduces a mandatory assessment of customer *sustainability preferences* into the IDD suitability assessment.
- In accordance with the obligation to carry out distribution activities in accordance with the best interest of customers, recommendations to customers or potential customers should reflect both the financial objectives *and any sustainability preferences* expressed by those customers.
- Our methodology focusses on (1) assessing the level of compliance with the new regulatory requirements (2) assessing the level of sustainable finance knowledge by advisors and (3) testing the limits of the regulatory definition of sustainability preferences.

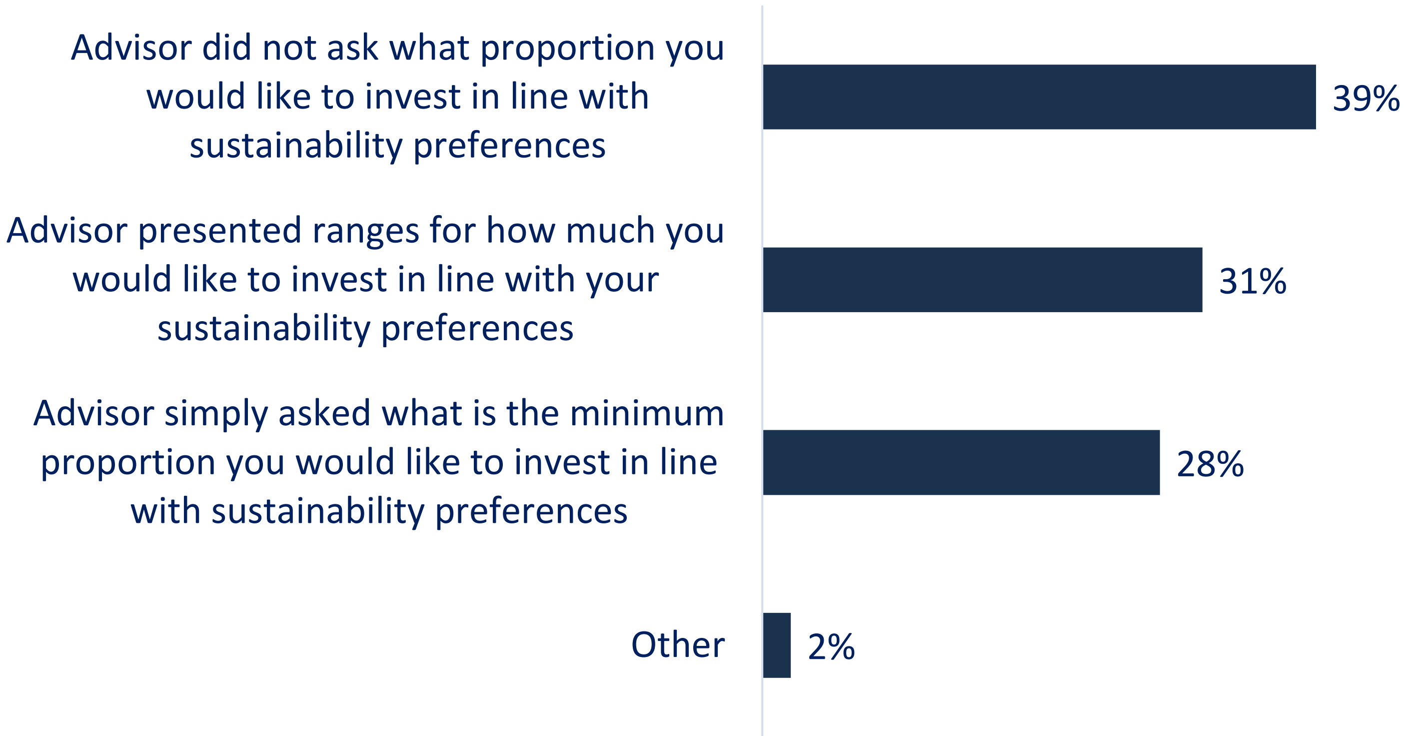
Low level of regulatory compliance

- The results reveal an alarmingly low level of regulatory compliance. In only 48% of appointments did the advisor bring up the subject of sustainability preferences without any prompting by the client. In addition, there is significant variability in the level of regulatory compliance across target countries.
- This means that the variability in advisor behaviour observed in our previous 2021 mystery shopping campaign has continued despite these regulatory changes.



Process not being followed

Assessment of the minimum proportion to be invested in accordance with sustainability preferences



- According to the current campaign average, the advisor did not assess the minimum proportion to be invested in accordance with sustainability preferences in 39% of appointments.
- In addition, the results raise questions as to whether record keeping by advisors is adequate.
- Without better compliance with these procedural steps it is unlikely that there will be any incentive structure for financial institutions to change the profile of their financial product offering to include more sustainable financial products.

Risk of unsuitable recommendations

- Many mystery shoppers did not reveal any concerns about the level of sustainable finance knowledge of the advisor but this is inconsistent with other results which reveal low levels of regulatory compliance.
- Advisors have a significant lack of knowledge on investor impact and our results indicate a systematic mismatch between product recommendations and impact-oriented customer expectations.
- Significant concerns as to whether the definition of sustainability preferences provides a sound basis for a comprehensive and holistic assessment of client preferences for sustainable investment.