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Bridging the Gap: Enhancing Investor Awareness in EU Sustainable Finance

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Executive Summary

This policy brief examines the surprising challenge that many retail investors are uncertain about whether their portfolios include sustainable investments, despite the European Union's regulatory efforts to integrate sustainability into financial advice. Preliminary evidence from a two-wave survey of roughly 1,000 Italian investors shows that about 20% were unsure of their holdings' sustainability in 2024, with significant uncertainty persisting in 2025. Investor awareness depends on perceived competence, knowledge of portfolio composition, and the type of interaction with financial advisors. Passive reliance on advisors increases uncertainty, while active engagement reduces it. Uncertainty about sustainability holdings may stem from factors such as ineffective ESG profiling, the technical complexity of sustainability concepts, and limited focus on actual impact. To reduce investor uncertainty, we recommend: (i) strengthening regulatory oversight to ensure that ESG profiling supports meaningful understanding; (ii) enhancing advisory practices to provide clear, tailored guidance; (iii) promoting sustainability-focused financial education; (iv) using digital tools to provide real-time portfolio insights; and (v) increasing visibility of ESG indicators in reporting. By reducing investor uncertainty, these measures aim to foster informed engagement and more effectively align portfolios with broader sustainability objectives.

Problem definition

Regulatory context

The European Union has placed sustainable finance at the core of its strategy to redirect capital flows toward sustainable economic activities. Central to this strategy are the Sustainable Finance Action Plan (2018) and the Renewed Sustainable Finance Strategy (2021), which introduced legislative measures to increase transparency, standardize sustainability disclosures, and integrate investors' sustainability preferences into financial advice. These measures aim to ensure that investment decisions are aligned with sustainability objectives, while providing investors with clear and comparable information on the sustainability characteristics of financial products.

Among these measures, the revision of the Markets in Financial Instruments Directive (MiFID II)—effective from August 2022—plays a pivotal role. Under the updated framework, investment firms are required to integrate sustainability considerations into the suitability assessment conducted with clients. Specifically, financial advisors are expected to:

- A. Ask clients whether they are interested in sustainable investments.
- B1. Determine the type of sustainability preference the client wishes to prioritize, such as environmental, social, or governance objectives, or products classified under Article 8 or Article 9 of the Sustainable Finance Disclosure Regulation (SFDR).
- B2. Record any minimum proportion of sustainable investments that the client would like to include in their portfolio.

This framework ensures that sustainability preferences are systematically considered alongside other factors, such as risk tolerance and financial objectives. By embedding sustainability into advisory processes, the EU aims to promote investor awareness, support informed decision-making, and foster alignment between individual portfolios and broader sustainability goals.

The emerging gap

Although these regulations are in place, it remains unclear whether all investors fully understand the sustainability characteristics of their portfolios. While financial institutions have generally implemented ESG profiling procedures, it remains uncertain whether these measures effectively translate into meaningful investor understanding. Advisory communication can still be overly technical or inconsistent, and investors with limited prior knowledge may struggle to interpret or apply the information they receive.

Empirical evidence

Preliminary results from a large-scale, two-wave survey conducted by our research group show that a notable share of retail investors are uncertain about whether their portfolios include sustainable investments. In 2024, around 20% of respondents reported not knowing if they held sustainable products and, more broadly, exhibited limited familiarity with basic sustainable finance concepts. These findings highlight potential gaps in advisory practices, disclosure, and investor education under the European Union's sustainable finance framework.

The survey was conducted in two waves, in 2024 and 2025, targeting a representative sample of roughly 1,000 Italian retail investors. The sample was stratified by portfolio size, covering a broad spectrum from less than €200,000 to high-net-worth investors, ensuring diverse representation in terms of wealth and experience.

The two survey waves provide insight into investor uncertainty and its evolution over time.

- **Dynamic awareness:** Among the investors who were unsure in 2024 (approximately 20% of respondents), less than half remained unsure in 2025. This illustrates that ESG awareness is not fixed and can evolve over time, even for the same individual.
- **Perceived competence:** Investors who feel confident in their knowledge of sustainable investing are less likely to be unsure, whereas those who perceive themselves as incompetent are more likely to be unaware of their holdings. Self-efficacy thus plays a key role in ESG awareness.
- **Role of financial advisors:** The effect of advisors depends on the type of interaction. Passive dependence on advisors (delegating decisions without actively seeking ESG information) increases the probability of being unaware about sustainable investments (+6.4%), whereas actively consulting advisors for ESG information decreases uncertainty (−8.7%). This indicates that advisors can either exacerbate or mitigate knowledge gaps depending on the investor's engagement.
- **Knowledge of portfolio composition:** Investors with limited understanding of what assets are held are more likely to be unsure about the sustainability of their holdings (+4.4%).

These findings indicate that policies aimed at improving sustainable finance literacy, promoting active engagement with advisors, and enhancing transparency about portfolio composition could significantly reduce investor uncertainty and better align portfolios with sustainability objectives.

Contextual analysis and potential causes

Several factors likely contribute to investors' uncertainty regarding the sustainability of their portfolios. This uncertainty does not necessarily reflect a lack of interest in sustainable investing, but rather limited awareness, unclear communication, or a combination of both.

1. **Ineffective MiFID profiling** – ESG suitability questionnaires are often completed very quickly, sometimes framed as a brief “three-minute” exercise. This may limit the time and attention investors devote to understanding their sustainability preferences.
2. **Technical complexity** – Many investors may find it difficult to understand technical terms such as Article 8 or Article 9 funds, the EU Taxonomy, or other specialized sustainable finance concepts. Using technical language can prevent investors from translating initial interest into meaningful knowledge of their holdings.
3. **Limited emphasis on impact** – Advisory communications often focus on products rather than the underlying social or environmental outcomes. Investors may be left asking: “What exactly are these products? What objectives do they pursue? What impact do they generate?” ESG profiling may remain largely formal; if effectively implemented, it could help investors clarify their own preferences and understand how their investments reflect those preferences.
4. **Uncertainty about Article 8 and 9 holdings** – Even when investors have invested in Article 8 or 9 funds, they may not recall that these investments qualify as sustainable. This contributes directly to uncertainty about the sustainability of their portfolios.

Understanding these potential factors is essential for enhancing advisory practices, improving disclosure, and supporting targeted investor education, thereby strengthening investors’ knowledge of portfolio sustainability and fostering long-term engagement.

Policy Recommendations and Anticipated Outcomes

Addressing gaps in investor awareness and advisory quality requires targeted policies that improve ESG advisory effectiveness and enhance investor understanding and engagement.

A. Evaluating ESG Profiling Effectiveness for Advisory Quality (Regulatory Oversight – Ensuring Meaningful Advisory Outcomes)

Banks already implement ESG profiling, but many investors remain uncertain about whether their portfolios contain sustainable investments, with a large number responding “don’t know” in our survey. Compliance alone is therefore not sufficient, and there is a risk that banks may treat ESG profiling as a formal, procedural exercise rather than a tool to support meaningful investor understanding.

Regulators (e.g., CONSOB) should explore qualitative monitoring to evaluate whether ESG profiling genuinely supports informed investment decisions and helps investors recognise which holdings are sustainable.

Impact expected: Regulatory oversight ensures that ESG profiling is meaningful, helping investors better understand the sustainability composition of their portfolios.

B. Strengthening Banks' Advisory Quality in ESG Practices (Operational Effectiveness & Awareness)

Financial institutions should ensure that clients can meaningfully distinguish between ESG and non-ESG products. Advisory processes could include checks to determine whether client responses on ESG preferences are genuinely informed. Advisors should provide transparent, proactive information about sustainability features and, where appropriate, offer updates on portfolio ESG composition.

Impact expected: Investors gain confidence in identifying ESG investments and reducing uncertainty.

This recommendation complements regulatory oversight (A).

C. Promoting Awareness through Sustainability-Focused Financial Education (Awareness – Targeted Programs for Informed Decisions)

Financial education initiatives should specifically promote programs focused on sustainable finance. Specifically, these programs should aim to strengthen perceived competency and reduce self-reported investor incompetence, ultimately supporting more informed and conscious investment decisions.

Education can integrate guidance on interpreting portfolio reports, understanding ESG classifications, and recognizing the sustainability of individual holdings.

Impact expected: Investors become better equipped to interpret ESG information independently.

This recommendation complements regulatory oversight (A) and advisory quality (B).

D. Using Digital Tools to Reduce Investor Uncertainty About Portfolio Composition (Awareness – Real-Time, Goal-Aligned ESG Insights)

Interactive dashboards, mobile applications, or other digital tools can help investors gain a clear, real-time understanding of which holdings in their portfolio are sustainable. Notifications and reminders should be carefully targeted, relevant to investor goals, and adjustable in frequency. Generic or excessive reminders are

unlikely to improve outcomes. Evidence from **Karlan, McConnell, Mullainathan, & Zinman (Management Science, 2016)** suggest that reminders are effective only when aligned with a user's own objectives and incentives.

Design principles should include investor segmentation—distinguishing between return-focused and personal-values-driven investors (see **Stark, Journal of Finance, 2023**)—as well as customizable notification settings and goal-aligned messaging, such as: “This holding contributes X% to your climate objective,” rather than blanket, high-frequency alerts.

Impact expected: Investors receive timely, relevant insights that reduce confusion and improve engagement with sustainable investments.

This recommendation complements advisory quality (B) and education (C) by providing interactive, goal-aligned tools that reinforce knowledge and guidance in real time.

E. Increasing Portfolio Visibility Through ESG Indicators (Awareness – Enhancing Recognition of Sustainable Investments)

Sustainability indicators should be included in all periodic portfolio reporting to increase visibility of existing ESG investments. Indicators should show both which holdings are sustainable and how they contribute to measurable ESG objectives and outcomes.

These indicators can be integrated with optional post-investment engagement and digital tools, helping investors track the sustainability impact of their portfolio over time. Clear, visible ESG reporting supports ongoing awareness, informed decision-making, and tangible recognition of the impact of investors' holdings.

Impact expected: Investors consistently recognize the sustainability and measurable impact of their holdings.

This recommendation complements advisory quality (B), education (C), and digital tools (D).

Conclusion

Transitioning to sustainable finance is not only about offering ESG products but also ensuring that investors understand their own sustainability characteristics. Bridging this gap between product availability and investor awareness is essential, as sustainable products alone cannot ensure meaningful participation in the sustainable finance ecosystem.

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