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Sustaining Investor Commitment in EU Sustainable Finance: Responding to Retail Disengagement

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Executive Summary

This policy brief examines the pressing issue of investor disengagement from sustainable investment products. Despite strong initial interest, a notable share of retail investors—approximately 16% in a representative two-wave survey of Italian investors—have exited these investments, raising concerns about the durability of commitment to sustainability and the effectiveness of current regulatory frameworks. Former sustainable investors tend to be younger, moderately risk-averse, rely more on social networks and informal sources for information, and exhibit lower financial literacy, while women show greater continuity in holdings but also higher uncertainty about their investment status. Possible drivers of disengagement include concerns about greenwashing, unrealistic financial expectations, limited attention to tangible ESG impacts, and procedural rather than meaningful integration of sustainability preferences under MiFID II. To tackle these challenges, the brief recommends (i) enhancing transparency through simplified ESG reporting, (ii) introducing post-investment engagement mechanisms, (iii) implementing continuous and personalized feedback systems, (iv) strengthening advisory quality, and (v) promoting basic financial literacy tailored to sustainable investing. These measures aim to improve investor understanding, trust, and sustained commitment to ESG products. By fostering long-term engagement, these interventions are expected to help achieve the EU's sustainable finance objectives, ensuring that initial investor interest leads to meaningful and lasting social and environmental impact.

Problem definition

A notable share of investors who previously held sustainable investment products have exited these investments. Although many initially expressed strong interest in sustainability, this interest has not consistently translated into stable, long-term investment behavior.

This pattern raises important questions about the durability of investor commitment to sustainability and the effectiveness of existing mechanisms designed to sustain it over time. The trend is particularly significant in light of the EU's 2019 Action Plan on Sustainable Finance, which seeks to channel capital toward activities with measurable social and environmental impact.

The observed decline in sustainable holdings suggests that these objectives may be at risk if initial enthusiasm does not evolve into lasting engagement. To understand why investor commitment may weaken despite strong initial interest, it is useful to review the regulatory framework designed to integrate sustainability preferences into investment advice.

Regulatory context

The European Union has made sustainable finance a central part of its strategy to redirect capital toward economic activities with positive social and environmental impact. Key initiatives, including the Sustainable Finance Action Plan (2018) and the European Green Deal (2019), introduced measures to enhance transparency, standardize sustainability disclosures, and embed investors' sustainability preferences into financial advice.

A cornerstone of this effort is the updated Markets in Financial Instruments Directive (MiFID II), effective from August 2022. Under this framework, investment firms are required to consider clients' sustainability objectives as part of the suitability assessment, alongside traditional factors such as risk tolerance and financial goals. Advisors must identify whether clients wish to pursue sustainable investments, understand their specific ESG priorities, and incorporate these preferences into portfolio recommendations.

Complementing MiFID II, the EU has implemented product disclosure rules—such as Key Information Documents (KIDs) under the PRIIPs Regulation—that aim to ensure that sustainability characteristics are presented clearly and comparably, helping investors make informed decisions. Together, these measures seek to normalize the integration of sustainability considerations into investment decision-making and promote sustained investor engagement.

The emerging gap

Despite these regulatory requirements, investors' initial interest in sustainability has not always translated into stable, long-term investment behavior. While MiFID II successfully

encouraged the inclusion of sustainability preferences in investment advice, there is uncertainty as to whether these preferences have been supported by effective advisory follow-up, transparent disclosure standards, or adequate sustained investor understanding.

Empirical evidence

Preliminary results from a large-scale, two-wave survey conducted by our research group reveal that a notable share of retail investors—approximately 16%—who once held sustainable products no longer do so.

The survey was administered in two waves: the first in 2024 and the second in 2025. It targeted a representative sample of roughly 1,000 Italian retail investors, stratified by portfolio size to ensure coverage across wealth and experience levels. Participants spanned different wealth segments, from portfolios below €200,000 to high-net-worth investors, ensuring broad representation.

The two survey waves provide insight into the group of former sustainable investors. This group shows distinct characteristics. They tend to be younger (average age 49, notably younger than current sustainable investors) and display lower risk aversion, similar to current investors, whereas unsure investors (i.e., investors unsure about whether they hold sustainable investments) exhibit higher risk aversion and lower portfolio wealth. Gender patterns show that while men are more likely to enter the sustainable investment market, women are more likely to continue holding sustainable investments. Yet women also report greater uncertainty regarding their sustainable investment status (20% of women vs. 13% of men).

Regarding how former sustainable investors obtain information, they rely more heavily on social media, specialized reviews, and family or friends, in contrast to current sustainable investors who predominantly consult financial advisors. Former sustainable investors also report lower financial literacy, suggesting that knowledge gaps may contribute to their exit from sustainable products.

Survey data further highlight reporting inconsistencies and persistent investor confusion: 28% of former sustainable investors in 2024 reported never having invested sustainably, and 15% of the 2024 sustainable investors transitioned to non-sustainable or unsure categories by 2025.

On a positive note, among respondents participating in both waves, 12% of the 2024 non-sustainable investors became sustainable investors in 2025. This indicates that entry into sustainable investing remains possible, providing some mitigating context regarding former sustainable investors' disengagement.

Contextual analysis and potential causes

Several possible factors may help explain why investor engagement with sustainable investment products has declined:

1. **Concerns about greenwashing** – Investors may be cautious that some sustainable products overstate their environmental or social impact, a phenomenon known as “greenwashing.” Such concerns can undermine trust and discourage continued investment. Supporting this, Kim and Yoon (Management Science, 2023) show that U.S. mutual funds that signed the UN Principles for Responsible Investment (PRI) attracted significant inflows but did not subsequently improve their ESG scores or financial performance, suggesting that some funds’ sustainability commitments may be more symbolic than substantive.
2. **Unrealistic expectations regarding financial performance** – Sustainable investments were sometimes presented as a “win-win”: delivering both positive environmental and social impact, along with superior financial returns. For instance, certain sustainable funds performed well during the COVID-19 crisis, reinforcing expectations of consistently high returns; however, performance has been more mixed more recently, and disappointment relative to earlier expectations may have contributed to disengagement.
3. **Limited focus on impact** – Investment communications often emphasize financial performance while giving insufficient attention to social or environmental outcomes. When investors focus primarily on financial returns, perceived shortcomings in ESG impact may lead to disengagement. Emphasizing tangible positive impacts, where relevant, could help sustain engagement even during periods of moderate or negative financial performance.
4. **Ineffective MiFID profiling** – In some cases, the integration of sustainability preferences under MiFID II may have been treated as a procedural formality rather than a genuine assessment. Investors may have been asked about sustainability interests without fully understanding the implications, leading to weaker commitment over time.

These possible factors are not mutually exclusive and may interact to explain why initial interest in sustainable products has not consistently translated into long-term investment behavior.

Policy Recommendations and Anticipated Outcomes

The disengagement of investors from sustainable products poses a serious challenge to the sustainable transition, as retaining investors is as crucial as attracting them. Addressing this issue requires strengthening both investor awareness, by making sustainability information clearer and more engaging, and advisory quality, by ensuring that advice genuinely supports informed, lasting participation. The following recommendations are organized along these two priorities:

A. Enhancing Transparency on ESG Impact through Simplified Reporting (Awareness – Improving Investor Understanding)

Investors should be provided with simplified and accessible reports that communicate not only financial performance but also the environmental and social impact of sustainable funds. Clear, comparable information can help investors understand the non-financial value of their investments and reduce disengagement caused by perceived opacity.

In this direction, the Key Information Documents (KIDs) required under the PRIIPs Regulation (EU 1286/2014) could be improved to include clearer, more visible references to ESG characteristics and impact metrics, ensuring that sustainability features are easily understood by non-professional investors.

Such transparency measures also help mitigate greenwashing risks, building trust that reported ESG claims accurately reflect actual practices and outcomes.

Impact expected: Enhanced investor understanding and confidence in ESG products, supporting trust and long-term engagement.

B. Introducing Post-Investment Engagement Mechanisms (Awareness – Sustaining Investor Commitment)

To foster long-term commitment to sustainable products, post-investment engagement mechanisms should be introduced.

These may include periodic sustainability reports highlighting the ongoing ESG performance and tangible impact of held investments. By demonstrating how portfolios contribute to measurable sustainability goals, financial institutions can strengthen investor attachment and reduce the risk of exit driven by loss of interest, misunderstanding, or lack of follow-up information.

Impact expected: Stronger investor attachment and reduced exit rates through awareness of tangible ESG outcomes.

This recommendation complements Recommendation A by extending transparency beyond the initial disclosure stage, ensuring that information remains relevant and engaging throughout the investment lifecycle.

C. Implementation of Continuous Feedback and Monitoring Systems (Awareness – Sustaining Engagement through Real-Time Insights)

To maintain investor engagement, institutions should implement continuous feedback systems that provide real-time updates on the ESG performance and impact of investments. Such systems could include interactive dashboards or mobile applications that communicate progress toward sustainability objectives, highlight tangible outcomes of investment decisions, and offer personalized insights tailored to investors' individual ESG preferences and objectives. By providing regular, clear, and relevant feedback, investors are more likely to remain informed and motivated, potentially reducing disengagement over time.

However, evidence from **Karlan, McConnell, Mullainathan, and Zinman (Management Science, 2016)** suggests that reminder messages are only effective when carefully targeted: reminders highlighting relevant goals and incentives improve outcomes, while additional late reminders or generic content offer no added effect. Applied to ESG investing, continuous feedback should be strategically timed and informative rather than overly frequent, to sustain engagement effectively.

Design principles should include customizable notification settings and goal-aligned messaging (e.g., "This holding contributes X% to your climate objective"), ensuring that feedback is relevant and actionable while avoiding generic, high-frequency alerts that could overwhelm or disengage investors.

Impact expected: More resilient investor engagement sustained by personalized and timely feedback.

This recommendation complements Recommendation B by transforming periodic reporting into a dynamic, interactive process that sustains investor attention and motivation over time.

D. Strengthening Advisory Quality and Investor Awareness (Advisory Quality & Awareness – Ensuring Informed and Lasting Participation)

Investor disengagement from sustainable products calls for more effective advisory practices and greater investor awareness.

First, regulators (e.g., CONSOB) should assess the qualitative effectiveness of ESG profiling to ensure that advisory processes genuinely support informed decisions, rather than mere regulatory compliance.

Second, banks and financial advisors should verify whether clients truly understand the distinction between ESG and non-ESG products, encouraging proactive, transparent communication about sustainability features.

Together, these measures help ensure that investors' initial interest in sustainability is matched by long-term awareness and commitment.

Impact expected: Better alignment between investor preferences and sustained participation through improved advisory quality.

This recommendation complements Recommendations A–C by ensuring that transparency and feedback mechanisms are reinforced by high-quality, informed advisory support.

E. Strengthening Basic Financial Literacy for Sustainable Investors (Awareness – Understanding Market Fluctuations)

Some investors who initially committed to sustainable products are partly or mainly driven by ethical, social, environmental, or other personal motivations, rooted in personal values (see **Stark, Journal of Finance, 2023**). Their exit behavior may be partly driven by a combination of recent declines in ESG investment returns and limited understanding of basic market dynamics. In particular, investors motivated primarily by sustainability goals rather than a full grasp of financial principles may not recognize that fluctuations—including temporary losses—are a normal feature of financial markets.

Financial institutions and regulators should implement targeted educational programs that explain market volatility in the context of ESG investing and help investors interpret short-term losses without undermining long-term commitment. By combining sustainability awareness with fundamental financial literacy, these initiatives can help retain motivated ESG investors and support the broader sustainable finance transition.

Impact expected: Higher investor resilience to market volatility, fostering long-term participation.

This recommendation complements Recommendations A–D by addressing the foundational knowledge required for sustained engagement.

Conclusion

Addressing investor disengagement from sustainable products is urgent to ensure the EU's sustainability objectives are met. By enhancing transparency, providing targeted post-investment engagement, and strengthening advisory quality and financial literacy, these measures are expected to foster lasting investor commitment and support a resilient transition toward sustainable finance.

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