Mystery shopping: How good is investment advice when it comes to sustainable investing?

Keywords: investment advisory services; individual investors, MiFID II; mystery shopping; sustainable investing

The field of sustainable investing has grown rapidly in recent years as investors increasingly show interest in environmental, social, and governance (ESG) factors in their investment decisions (Eckert et al. 2022; Gutsche and Zwergel 2020; Wins and Zwergel 2016). Yet due to the complexity of (sustainable) investment products most retail investors do not make their investment decision alone but are influenced and guided by advisors (Gutsche and Zwergel 2020; Hackethal, Haliassos, and Jappelli 2012). The role of advisors is to be aggregators and providers of information (Paetzold, Busch, and Chesney 2015) and many private investors rely on the expertise of investment professionals (European Commission 2018; Filippini, Leippold, and Wekhof 2021; von Lüde 2013; Martenson 2008; Zuber 2005) especially in the context of sustainable investing as product complexity increases (Filippini et al. 2021; Girerd-Potin, Jimenez-Garcès, and Louvet 2013; Hockerts and Moir 2004; Hummels and Timmer 2004; Paetzold et al. 2015; Schrader 2006; Tedesco et al. 2021).

Prior research has paid a lot of attention to how specific investment characteristics like the impact of sustainable investments, costs or returns affect investors' decisions (Heeb et al. 2022; Riedl and Smeets 2017). Yet little is known about the process of delivery of this information. The European Union acknowledged the key role of advisors as information providers and introduced changes to the Markets in Financial Instruments Directive 2014 (MiFID II) regulation, which requires investment advisors to address investors' sustainability preferences in the advisory process (EU Commission 2018b). In the past, investment advisors have not fulfilled their role as intermediaries in the field of sustainable investing (Klein et al. 2022). Consequently, individual investors have not been sufficiently informed about sustainable investments during the investment advisory process and the existing informational asymmetries have not yet been reduced (Gutsche and Zwergel, 2020; Paetzold et al. 2015; Schrader 2006). Furthermore, previous studies have shown that the quality of advice in the area of sustainable investments, before the introduction of the sustainability preference survey according to MiFID II, was rather weak and suggest that further research on the quality of advice in this area is urgently needed (Schrader 2006).

In this paper, we investigate the quality of the sustainable investment advisory process after the implementation of the MiFID II regulation and how it impacts the information available to retail investors. We attempt to answer the following research questions: (1) Are the regulatory requirements for providing investment advice in the area of sustainable investing met in the investment advisory service? (2) How good is the quality of investment advisory services in the area of sustainable investing? (3) Do differences exist in the quality of sustainable advisory services between different banking chains? (4) Do investment advisors attempt to influence the sustainability preferences of individual investors? (5) What determines advisors' sustainable investment product recommendations?

To study the advisory quality in the field of sustainable investing, this paper applies a mystery shopping approach. We collect controlled data of retail investor and investment advisor encounters to assess the effectiveness of the MiFID II regulations and to gain insights into the service performance of investment consultations regarding sustainable finance. We developed a multi-day training program to train approximately 100 mystery shoppers (i.e., test individual investors) to monitor the quality of the investment advisory process The mystery shoppers are allocated one of three investor profiles which differ based on their sustainability preferences. Each shopper attends five investment consultations with five unique investment advisors at different financial institutions in Germany, providing us with a sample of 500 observations. During the consultations, the mystery shoppers allow the investment advisors to follow their normal process while paying attention to key topics identified in our model building process. These key topics pertain to the standards of service during sustainable investment consultations. The mystery shoppers track their observations in a survey, which we designed and pre-tested, that's filled out immediately after the consultation to capture the quality of the advisory process directly after the consultation. In addition to the survey, we gather further qualitative data, e.g., an audio file of the mystery shoppers' impressions. In contrast to customer surveys, mystery shopping enables a direct recall of the experience and offers a more objective perspective as mystery shoppers are trained on the criteria they are assessing (Finn and Kayande 1999). Furthermore, mystery shopping aims to obtain facts rather than perceptions (Douglas and Douglas 2015). The main data set will be collected between March 2023 and June 2023 and the pretest data set used to pretest the survey was collected between October 2022 and December 2022.

Through the data collection, we assess the service performance (ServPerf) according to the model by Cronin and Taylor (1992) which measures tangibles, responsiveness, reliability, empathy and assurance. In addition to ServPerf, we also assess a self-developed scale, General Advisory Quality (GAQ), which captures staff conduct, credibility, the communication of investment information and alignment with regulation. With respect to our focus on sustainability, we also develop and assess a scale, the Quality of Sustainable Investment Advice (QSIA), by measuring the sustainable preference inquiry, sustainability image, sustainable product information and general sustainability information. Based on this assessment, we are able to show the level of accuracy and completeness of information provided in sustainable investment advisory processes. We are also able to demonstrate whether advisors attempt to influence investor's sustainability preferences through the way information is provided. Finally, to understand what determines advisors' sustainable product recommendations, we analyze the relationship between the recommendation and a variety of variables that could impact the recommendation as indicated by prior literature. Most prominently, we are interested to see to what degree an investors' profile and their preferences moderate the advisors' recommendations and if the stated sustainability preferences are correctly accounted for in the product recommendation. Furthermore, we aim to test the influence of gender dynamics, both on the investor and the advisor side. Finally, we will analyze the impact of ServPerf, GAQ and QSIA on the advisor's recommendation.

The results of the study will provide valuable insights into the quality of the investment advisory process in the field of sustainable investing. By studying the investment advisory process after the implementation of changes to the MiFID II regulation, we will gain an understanding of the effectiveness of the changes to the regulation and can highlight the strengths and potential shortfalls in implementation across different financial institutions.

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