

Socially Responsible Investments

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Motivation

- Tendency towards more choice flexibility for participants in occupational pensions
- If participants can choose their own investment strategy, they may be interested in socially responsible (SR) investments
- If employees can choose their own pension fund, pension funds can differentiate by, for example, SR investments
- In this paper, we analyze revealed and stated individual preferences for SR investments in the Netherlands
- We also consider what can make SR investing attractive

Overview

- Actual behavior and stated preferences on socially responsible assets (mutual funds, saving accounts at SR banks)
- Survey data collected in CentERpanel in May 2016
- Descriptive analysis of an exploratory nature

- What are the characteristics of actual SR investors?
- Do “special offers” help for actual behavior?
- What are the characteristics of respondents who state a preference for SR investing?
- How important are the characteristics of the investment product?

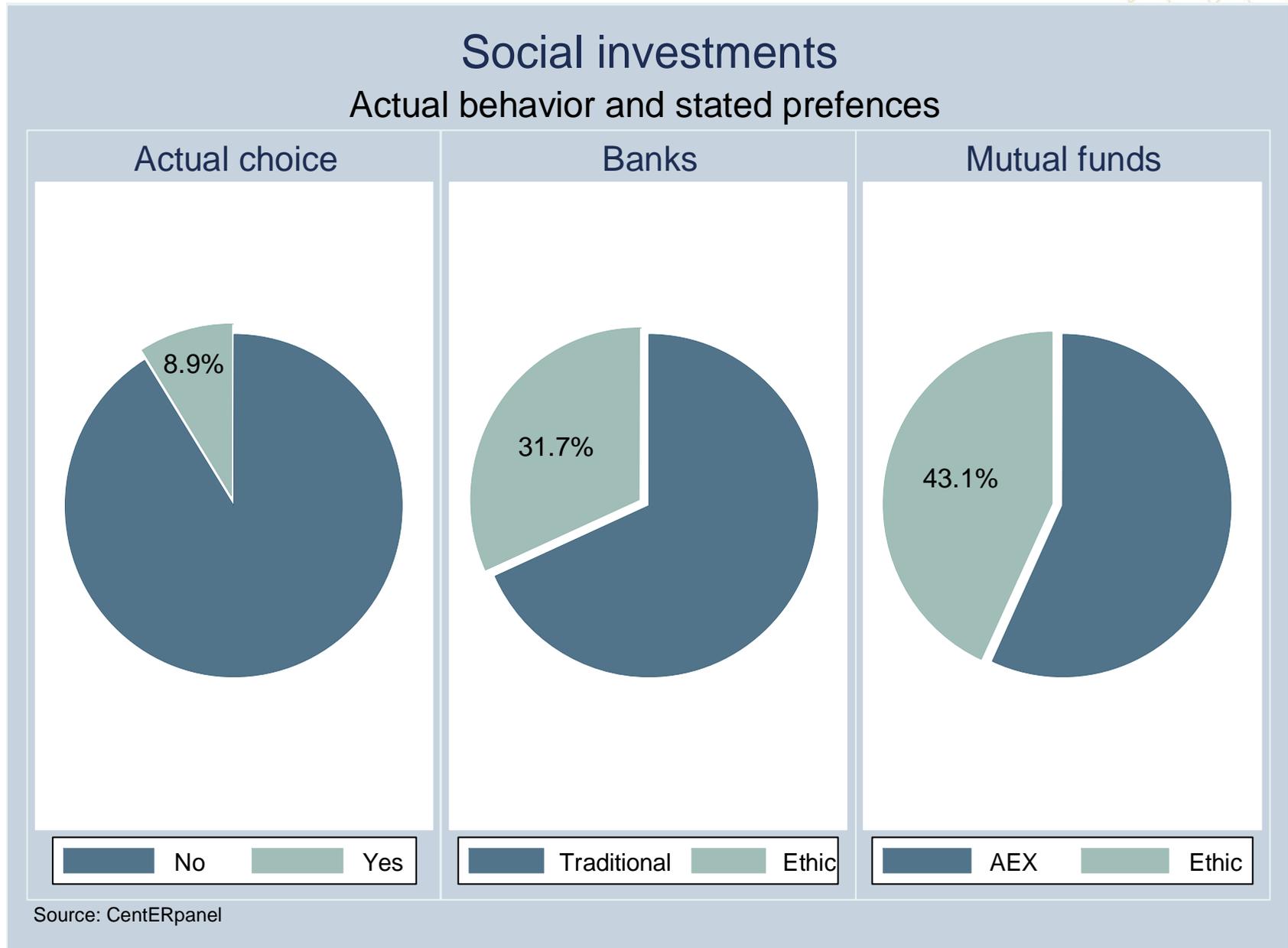
Some existing studies

- Pasewark and Riley (2010) asked individuals to choose between a bond issued by a tobacco company and one issued by a firm outside the tobacco industry. They concluded that traditional wealth-maximization approaches fail to capture an important factor affecting investment decisions by not including the personal values of the investor.
- Bauer and Smeets (2015) found high levels of social identification among young, highly-educated and low-wealth investors, thus supporting the profiling of socially responsible investors done in Junkus and Berry (2010).
- Importance of gender and education was also highlighted in Nilsson (2008), who also showed that social investors were not only driven by altruistic motives, but also by the idea that ethical mutual funds have average or higher performance.

Data

- Our data have been collected through an internet survey among participants of the CentERpanel run by CentERdata at Tilburg University, specialized in data collection and internet surveys.
- The CentERpanel consists of about 2,000 households and is broadly representative for the Dutch adult population.
- It has been used for numerous economic studies in existing papers and is the basis for the DNB Household Survey and the Dutch contribution to the ECB Financial Household Survey.

Stated and revealed preferences for SR assets



Actual ownership of SR assets

Do you (or someone in your household) have any investments in socially responsible assets or other mutual funds that invest in environmentally friendly companies or in cultural or other activities that are beneficial to society?

Yes: 8.9%; No: 91.1%

Probit estimates:

	Coef.	T-value	
female	-.0303	-0.37	
lnhhinc	.0638	1.77	
age	.0709	3.80	(max at age 74)
age2	-.00048	-2.85	
kid	-.0348	-0.33	
edu_mid	.2226	1.86	
edu_hig	.6881	6.38	(marg. Effect 9.7%-points)
married	-.0765	-0.80	
work	.0734	0.67	
urban	.1065	1.31	
constant	-4.649	-7.64	

Reasons for SR investing (n=187)

- Want to contribute to improving society 60.4
- More confidence than in other financial companies 37.4
- Expected (financial) returns 24.0
- Tax favored nature of these assets 27.8
- Response to a special offer 3.7

Reasons for not investing in SR assets (n=1924) (with significant determinants)

- Should do this, but did not get to it
female (-); education (+) 9.5%
- No money to invest
Age (-), education (-), married (-), work (-) 34.8%
- Want to be able to withdraw immediately
Income (+) 47.5%
- High costs or low (expected) returns 11.1%
- Only want to invest in traditional banks
Income (-), education (+), urban (-) 14.5%

Actual behavior: special offers

At some banks you receive a present, like a book or a voucher, if you open a new account or start investing, or if you make an additional investment

Did you (or anyone in your household) ever receive such an offer, and if so, did you make use of it?

- | | |
|--|-------|
| a) As far as I know, I/we never received such an offer | 63.0% |
| b) I/we received such an offer but did not make use of it | 25.9% |
| c) I/we once made use of such an offer to allocate part of our savings | 6.2% |
| d) I/we more than once made use of such an offer to allocate part of our savings | 5.0% |

Probit regressions

	Offer received (n=2314)		Offer accepted given offer received (n=986)	
	Coeff.	T-value	Coeff.	T-value
female	.0357	0.66	.5140	6.13
lnhhinc	.0152	0.80	-.0231	-0.79
age	.0009	0.44	-.0063	-1.86
kid	.2790	4.23	.1128	1.11
edu_mid	-.1058	-1.48	-.1627	-1.47
edu_hig	.0118	0.17	-.2658	-2.51
married	.1143	1.75	.327	3.06
work	.0765	1.18	-.0193	-0.19
urban	.1339	2.44	-.095	-1.12
cons	-.6170	-2.90	.0278	0.08

Stated preferences: savings (1)

(randomizations in blue)

Suppose you receive an inheritance of [5000 / 10,000] but the condition is that you cannot spend the money now but only one year from now at the earliest. You can invest it in some account or mutual fund and receive the money plus net return one year from now. What would you choose if you had the following possibilities?

- a) Put the money in a saving account at a traditional bank and receive an interest rate of 1% (75.4%)
- b) Put the money in a saving account at a bank that only invests in socially responsible companies and receive an interest rate of [0.6% / 0.8%]. (15.3%)
- c) Put the money in a saving account at a bank that only invests in socially responsible companies and receive an interest rate of [0.5% / 0.75%]. In addition, if you open the account you get a Deluxe edition of the book Wildlife in Europe with a value of [€40/ €60] if you would buy it in a store. (9.3%)

Probit regressions

spl_c	b or c (n=2289)		b given not c (n=2076)		c given not b (n=1983)		c given b or c (n=563)	
	Coeff	t-val	Coeff	t-val	Coeff	t-val	Coeff	t-val
_cons	-1.525	6.37	-1.917	-6.68	-2.291	-6.74	-.6117	-1.19
female	.0090	0.15	.0167	0.24	.0081	0.10	-.0642	-0.52
lnhhinc	.0099	0.46	.0163	0.64	.0094	0.33	-.0176	-0.38
age	.0071	3.03	.0046	1.72	.0102	3.11	.0075	1.52
kid	-.0566	0.77	-.1736	-2.04	.0841	0.84	.3081	2.02
edu2	.1761	2.12	.2439	2.50	.0284	0.25	-.1930	-1.05
edu3	.6223	8.01	.6598	7.23	.4624	4.45	-.1030	-0.62
married	-.0426	0.60	.0120	0.15	-.1156	-1.21	-.1497	-1.06
work	.0388	0.53	-.0173	-0.20	.1340	1.33	.1421	0.99
urban	.1554	2.59	.2113	3.06	.0137	0.17	-.1962	-1.58
Inh_10kE			.0208	0.20	-.3356	-3.97	-.0619	-0.39
High_return_b			.2636	3.05			-.9571	-6.47
High_return_c					.6403	7.59	.9612	7.88
Exp_book_c					.0787	0.99	.2150	1.80

Stated preferences: savings (2)

What would you choose you if you had the following possibilities?

- a) Put the money in a saving account at a traditional bank and receive an interest rate of 1% (68.3%)
- b) Put the money in a saving account at a bank that only invests in socially responsible companies and receive an interest rate of [0.6% / 0.8%]. The bank guarantees that the remaining [0.4% / 0.2%] will be used for [vaccinations of children in Africa / loans to help women in developing countries to set up their own business]. (23.1%)
- c) Put the money in a saving account at a bank that only invests in socially responsible companies and receive an interest rate of [0.5% / 0.75%]. In addition, when you open the account, the bank gives you a voucher worth [€40/ €60] that you can spend on theater visits, cinema tickets, sports events, or concerts in the next twelve months. (8.6%)

Stated preferences: savings (3)

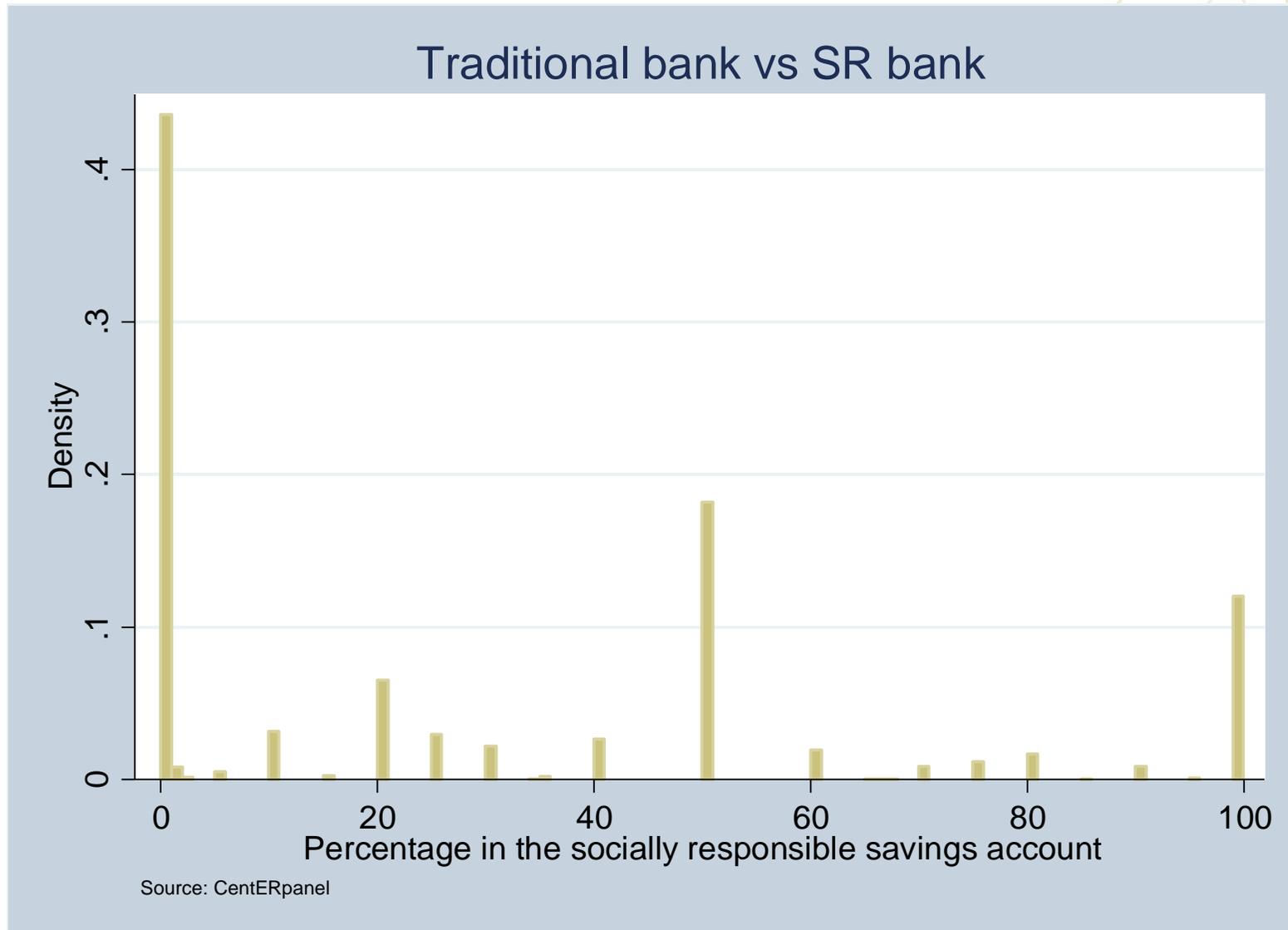
Now suppose you can split the amount in two, put part of it in a savings account at a traditional bank with a 1% interest rate, and put the remaining part in a saving account at a bank that only invests in socially responsible companies, with an interest rate of [0.6% / 0.8%]. The bank guarantees that the remaining [0.4% / 0.2%] will be used for [vaccinations of children in Africa / loans to help women in developing countries to set up their own business].

How would you choose to allocate the total amount?

... % in the traditional savings account

... % in the socially responsible savings account

Percentage in the SR savings account (mean: 30.34%)



Two-limit tobit estimates (censoring at 0 and 100)

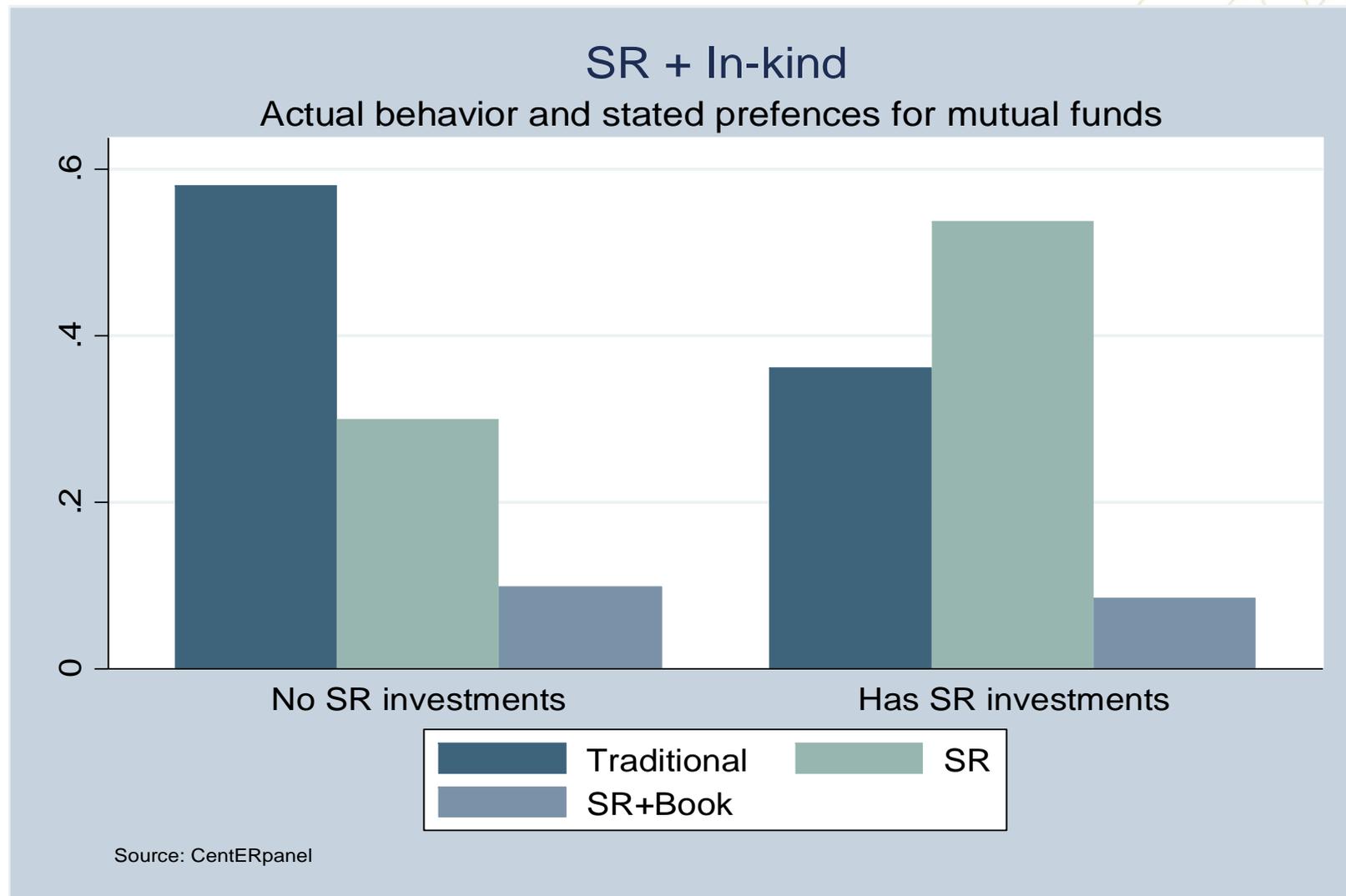
	Coeff	t-val
constant	-38.793	-2.94
female	9.178	2.84
lnhhinc	1.821	1.59
age	.3869	3.08
kid	-3.141	-0.80
edu2	3.647	0.86
edu3	26.200	6.41
married	-9.470	-2.49
work	4.592	1.19
urban	6.599	2.03
Inh_10kE	-1.709	-0.48
High_Interest	9.817	3.13
loans_women	-1.915	-0.61
sigma	67.920	38.35

Stated preferences: mutual funds

What would you choose you if you had the following possibilities?

- a) Put the money in a mutual fund with a return linked to the AEX (Amsterdam Stock Exchange) Index. (The AEX invests in the stocks of the 500 largest companies in the Netherlands) **(65.9%)**
- b) Put the money in a mutual fund investing only in a careful selection of socially responsible companies. Compared to the AEX, this mutual fund has a **[1.0 / 0.5 percentage points]** lower return per year on average, and the same risk **(32.8%)**
- c) Put the money in a mutual fund investing only in a carefully selected group of socially responsible companies. Compared to the AEX, this mutual fund has a **[1.2 / 0.6 percentage points]** lower return per year on average, and the same risk. In addition, you get a Deluxe Edition of the book Wildlife in Europe (with a value of €50 if you would buy it in a store). **(10.4%)**

Revealed and Stated preferences for SR mutual funds



Probit regressions

	b or c (n=2261)		b given a or b (n=2027)		c given a or c (n=1520)		c given b or c (n=975)	
	Coeff	t-val	Coeff	t-val	Coeff	t-val	Coeff	t-val
constant	-.7902	-3.52	-1.1482	-4.67	-1.170	-3.62	-.0984	-0.26
female	.1716	3.09	.1784	2.99	.1348	1.63	-.0372	-0.40
lnhhinc	.0152	0.78	.0211	1.00	-.0009	-0.03	-.0214	-0.63
age	.0048	2.22	.0047	2.03	.0050	1.55	.0011	0.31
kid	-.0850	-1.26	-.1288	-1.78	.0330	0.33	.146	1.23
edu2	.0228	0.31	.0855	1.07	-.1009	-0.98	-.2164	-1.79
edu3	.3320	4.75	.4483	5.89	-.0075	-0.07	-.4421	-3.86
married	-.0254	-0.39	-.0039	-0.06	-.0787	-0.83	-.0707	-0.66
work	-.0299	-0.45	.0304	0.42	-.1730	-1.76	-.2036	-1.85
urban	.1860	3.36	.2174	3.65	.0637	0.77	-.1618	-1.74
Inh_10kE	-.0446	-0.74	.0151	0.23	-.184	-2.12	-.1953	-1.98
Low_return	.0607	1.13	.0154	0.27	.1683	2.11	.1545	1.72

Conclusions

- Our results suggest that potential demand for these types of investments may exceed current holdings
- Strong interest shown by highly educated individuals, older individuals, and women
- Returns matter, also for SR investments
- Actual behavior: women more often accept “special offers.” But this is less clear in the stated preferences
- Some suggestive evidence that certain forms of ethical investments may be more attractive than others