Measuring Sustainable Finance Literacy in the Netherlands

"Sustainable finance literacy is essential: without sufficient understanding, individuals cannot adequately express their sustainability preferences, while pension funds need these preferences to align their investment policies with participants' values."

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What is the focus of the paper?

This paper studies the level of sustainable finance literacy (SFL) among Dutch individuals, that is, the knowledge and skills needed to understand sustainable financial products and make informed sustainable investment decisions. To measure SFL, the authors developed an objective nine-question multiple-choice assessment, administered to 310 Dutch respondents. The study also considers financial literacy, subjective self-assessments, and socio-demographic characteristics. It is motivated by European regulations requiring pension provider to take participants' sustainability preferences into account.

What are the key findings?

Average SFL scores are 53.5%, significantly lower than the 85.9% achieved in traditional financial literacy. Basic concepts such as greenwashing and sustainable investing are widely understood, while technical knowledge, especially EU regulations, remains limited. Financial literacy and SFL are positively correlated. Self-assessed knowledge is strongly associated with actual knowledge. Notably, unlike financial literacy, there is no gender gap in SFL: men and women perform similarly. Overall, SFL varies across individuals but is difficult to predict using socio-demographic factors.

What are the implications?

As sustainability becomes increasingly embedded in European financial regulation and pension policy, understanding participants' sustainability preferences and knowledge is essential for pension funds seeking to incorporate these preferences into their investment policies.

- The newly developed SFL assessment enables pension funds and researchers to objectively measure participants' sustainable finance literacy. It provides a practical tool to tailor communication and education and to improve the elicitation of sustainability preferences.
- Pension providers should provide targeted education and guidance to help participants better understand and express their sustainability preferences.
- Communication about sustainable investments should be clear, simple, and accessible, particularly regarding complex EU regulations.
- Sustainable finance offers the opportunity to engage broader groups of participants, including women, more actively in pension and investment decision-making.

Want to know more? Read the paper:

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Netspar, the knowledge network that brings together science and the pension, retirement and insurance industry: netspar.nl

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