

The possibility of co-measuring sustainability and risk preferences

“The integration of both dimensions can have theoretical and practical benefits”

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What does the report examine?

This overview study examines the advantages and disadvantages, challenges and considerations of jointly measuring sustainability and risk preferences among participants of pension providers. The report first discusses relevant regulation and supervision, and then explores academic and practical considerations related to measuring risk and sustainability preferences. Finally, three methods are presented for an integrated measurement approach.

What are the key findings?

In both academia and the pension industry, there is considerable interest in the possibility of measuring sustainability and risk preferences simultaneously. These preferences are interrelated through the link between risk, return and sustainability. Although the measurement of risk preferences has a solid scientific foundation and is widely applied, questions remain about issues such as the influence of behavioral biases and inconsistencies across different methods. For sustainability preferences, there are also challenges: scientific research is limited and quantitative measurement is not commonly used in practice. The report then explores three possible methods for an integrated approach: the existing sustainable Choice Sequence method, the new sustainable Conjoint and sustainable Pension Builder methods.

What are the implications?

- Because the integrated measurement involves many challenges, more scientific research is needed. Such studies should clarify to what extent preferences can be distinguished from beliefs, how inconsistencies between methods can be reduced, which approaches are most suitable and how the influence of biases can be limited.
- Within the pension sector, further action is required as well. More experience with integrated measurement in practice can yield new insights. It is hereby essential to clearly formulate the definition of sustainability and to handle the complexity of elicitation exercises with care.
- As long as the optimal form of elicitation has not yet been established, supervisors are recommended to keep an open mind and allow pension providers room to experiment.

Want to know more? Read the paper (in Dutch):

Een verkenning van het geïntegreerd meten van duurzaamheids- en risicopreferenties