My clients aren't interested in ESG/Sustainable investment

At a very generic level, that is probably true. Or, rather, it is probably, partially, sort of true.

When an adviser says "my clients", it is generally meant in terms of the vast majority of her/his clients. In this case, I think the statement is completely false and demonstrates one of the following:

- The 'clients' in question are a collective of single people with no families, no connections to society, are sceptical of all environmental evidence put in front of them, are willing to put themselves before everyone else, at any cost and, probably, contrarian for contrarian's sake. These clients still need to be made aware of the systemic risks to financial stability posed by climate change (see Bank of England etc). It's best for advisers to avoid the "you didn't warm me" scenario.

- That the adviser has probably not explained ESG/Sustainable/Responsible investment to each and every client and hasn't asked each one for their opinion. And when I say asked, I do not mean "do you want anything to do with this lefty, hippy ESG nonsense or do you want to invest properly to maximise your returns". Even if the adviser had provided educational material ahead of each meeting (as per the FCA's education requirement in **Sustainability Finance Strategy - 23/04**), the tone with which the question is asked, indeed the fact that the adviser probably only asked one simple question, will obviously have a negative impact on the response from the client.

Some advisers are quite happy to state that very few of their clients ever ask about ESG. Well, that is hardly a surprise as ESG is very much a financial services thing and hardly the first thing people talked about as soon as they went back to the pub after lockdown.

Let's flip that around for a moment (humour me) and look at it from a slightly different compliance point of view. "Only 3 clients asked about Attitude to Risk and Capacity for Loss". On that basis, there is no demand amongst the public for completing a detailed questionnaire or following a psychometric testing process to understand their attitude to risk for capacity for loss because clients are not interested in this. Just assume no one has any interest in risk and throw everyone in an average risk fund. Second thoughts, don't do that.

Will any IFA reading this admit they don't ask clients about risk? The point is that the AtR and CfL process is instigated by the adviser, not the client. ESG and Sustainable Finance is the same. If only 1 in 100 clients would want ESG if asked, then if the question isn't asked how will an adviser find them? What sort of defence could be built, from the file, to defend a case going to FOS based on "the client didn't ask, so neither did I"?

I agree that asking clients can be difficult, but with new Sustainable Finance rules it will be easier. As a regulatory requirement, advisers can be agnostic about asking the appropriate questions as part of their normal fact-finding process. It isn't something the adviser is doing because they want to, they are doing it because they have to. As such, it is a further set of questions to include in the fact find process and the annual review. I say questions, because you can't simply ask about ESG without also asking about SDGs, Impact, responsible and the age-old ethical questions as well.

It is incumbent on advisers to find the one in a hundred clients who want to invest for profit whilst applying their values. I really don't imagine that, given a neutral approach from advisers and sound educational material, it will be as few as one in a hundred.

So, let's be completely balanced about this and assume that 50% of an adviser's clients do not want any of that hippy, greenie stuff, but 50% are interested in long term risk mitigation and in applying their personal values to their finances. That's 50% of the adviser's current clients who are potentially being badly advised, the adviser hasn't met the know your client requirements and potentially half of the client bank could raise a complaint when they find out. Not really a position a good firm wants to be in, is it? And worse, the firm has no idea whether it is 1%, 50% or 80%. At the most basic level, that's a good bit of MI to include in the firm's Senior Management Regime risk and compliance reviews.

A brave new world is coming, like it or not, and advice firms will need to introduce new processes at the initial fact finding stage AND at each annual review.

Last point – advisers need to stop referring to ESG as the main issue. The client facing phrase should be….*Sustainable Finance preferences*. ESG is a sub-set of Sustainable Finance, as are Impact Investing, Responsible Investing, SDG aligned investing and ethical investment etc.