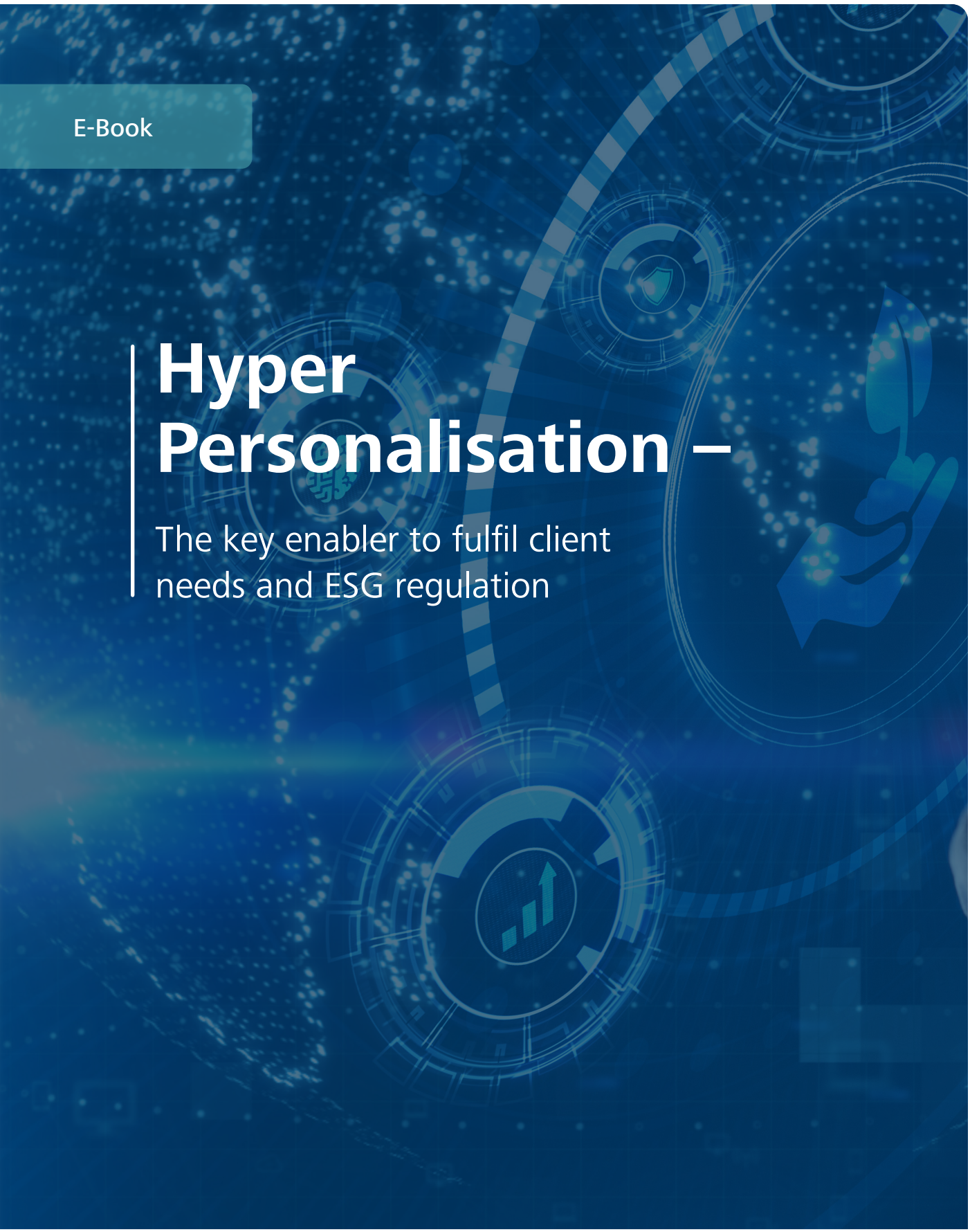
E-Book

Hyper Personalisation –

The key enabler to fulfil client needs and ESG regulation



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Driving the New Wealth Experience.

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The sustainability megatrend can help financial institutions to significantly strengthen their own brand and positioning.



78%

of wealth clients have sustainability goals[1]



35%

of clients with sustainability goals are intending to switch wealth managers in the next three years[1]



25%

of millennial clients see sustainable investment propositions as most important factor when selecting a new wealth manager[1]

[1] *EY (2021): Where will wealth take clients next? – 2021 EY Global Wealth Research Report, pp. 33f.*

Executive summary

- The MiFID II ESMA regulation has lost its power to transform the services of investment advice and discretionary portfolio management
- The timeline does not fit, and it's almost impossible to be understood by a client because of its complexity (made from experts for experts)
- The regulatory initiatives are valuable and are correct in their core idea (why), but unfortunately, notably strangely designed (how, what)
- It has to be implemented but has no significant value for the business model of financial institutes and will cause rejection by clients
- But: ESG regulation is only a minor part of the megatrend sustainability
- With sustainability, financial institutes can strengthen their brand and preserve themselves from losing clients to competitors
- Sustainability can attract financial institutions for the younger generations, who will be substantially wealthy soon
- Sustainability increases the willingness to pay
- Hyper personalisation is the key toolkit to bring sustainability into wealth management
- It's all about investments that match personal (sustainable) values & are the prerequisite for a great client service experience
- The combination of the megatrend sustainability with hyper personalisation allows a round trip from personalised data collection to customised investment reporting and can compensate for or mitigate the weaknesses of regulation with an intelligent implementation
- All in all, such services can make a decisive contribution to the EU's sustainability goals

ESG regulation: Introduction

To achieve the goals of the Paris Climate Agreement, invoked on 4 November 2016, the EU presented an action plan in March 2018 to realign capital flows towards sustainable investments. As part of this action plan, comprehensive frameworks have been, and will continue to be, published starting with SFDR Level 1 on 10 March 2021 or taxonomy on 01 January 2022.

From the point of view of the two services of **investment advice** and **discretionary portfolio management (DPM), 02 August 2022** is a crucial date, as the MiFID II extensions will be enforced and must be productively applied from this date onwards.[2]

A current look at the market shows that different experts agree that the MiFID II extensions in their current form have – to put it mildly – various weaknesses.

*"This EU-Brussels taxonomy salad is **crazy**. […] With nuclear power and gas, the **EU taxonomy loses its credibility**." (Ökoworld Founder, Alfred Platow)* [3]

*"The (sustainable) preference query is a **big challenge** for the technical processes and prolongs the advice and documentation. If this is not implemented efficiently, it could be a **nightmare**." (Board Union Investment, Hans Joachim Reinke)* [4]

*"The **MiFID II requirements**, as specified by 21 April 2021, simply **cannot be met** by financial market participants as of 2 August 2022." (Regulatory and Legal Affairs Officer FNG, Robert Balázs)* [5]

[2] *The requirements will not be catalogued in detail in this e-Book, but high level listed in an overview:*
(1) Query a client's sustainability preferences.
(2) Consideration of sustainability preferences in portfolio construction
(3) Inclusion of sustainability preferences in product governance reviews
(4) Inclusion of sustainability preferences and test results in the Suitability Statement
(5) Inclusion of sustainability preferences in continuous monitoring & reporting (only discretionary portfolio management)
[3] *Private Banking Magazin (2022): „Mit Atomkraft und Gas verliert die EU-Taxonomie ihre Glaubwürdigkeit"*
[4] *Procontra online (2020): ESG: Grüne Präferenzen gefragt*
[5] *Tagesspiegel Background (2022): Mifid II stellt die Branche vor Probleme*

This e-book will first briefly look at the background to these three statements. To this end, it is worth taking a detailed look at the EU's published legal framework in the form of the SFDR and the taxonomy. According to a report prepared in 2019 by McKinsey & Company for the independent National Standards Control Council in Germany, laws are effective and practicable if they fulfil the following three core requirements:



1. Clarity



2. Comprehensibility



3. Promoting acceptance

These three core requirements are causally related. Only if a regulation is clear and free of ambiguity, people can understand it, which is the prerequisite for acceptance. The MiFID ll extension should fulfil all three requirements. Otherwise, the regulation will miss the important, and necessary goal of transforming the money flows of the financial market into sustainable investments.

MiFID II extensions: Clarity

With regard to the clarity of the MiFID II extensions, the timetable and the order of the regulations coming into force appear highly questionable. For example, a client's sustainability preferences query is based on different sustainability factors (Principle Adverse Impacts). Unfortunately, these sustainability factors are not yet available in a final form. The delegated act only refers to a final draft (RTS)[6]. The final publication of the sustainability factors has been postponed from 01 July 2022 to 01 January 2023 and is not scheduled to be published until 4 months after 02 August 2022.

In addition, the consultation of the Practical Guidelines launched by ESMA on 27 January 2022 adds to the ambiguity, as key (process) requirements of the delegated act are again questioned by ESMA itself[7]. The final publication of the Practical Guidelines is expected by ESMA in Q3/2022. In summary, ESMA's current timetable is not clear in crucial areas, which is summarised in the following figure.

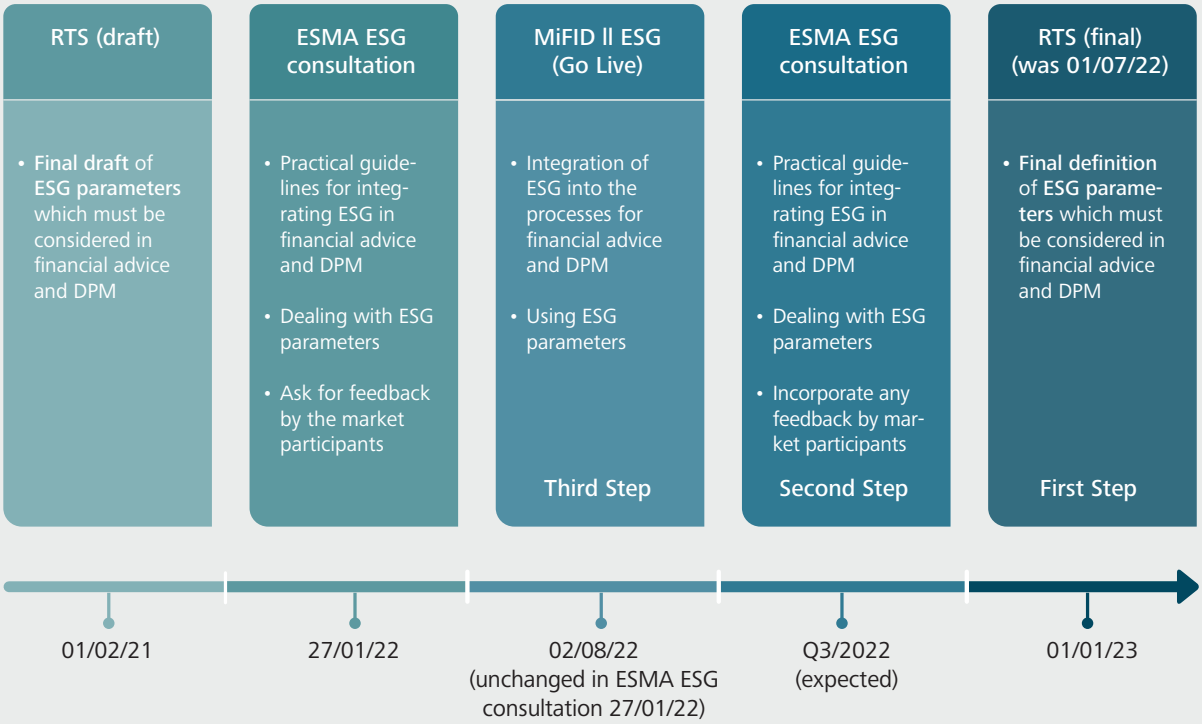


Figure 1: Timetable of the MiFID II Regulation (excerpt)

It is simply the third step, before the second and before the first. It is therefore already foreseeable for financial institutions that they will have to adapt the (software) processes that went live on 02 August 2022 in 2023. Especially against the background that the data parameters required for ESG integration will not (be able to) be finalised yet.

[6] *ESMA (2021): Final Report on draft Regulatory Technical Standards*
[7] *According to the delegated act, a financial product may still be recommended if it does not meet (all) the sustainability preferences of a client. Even so, in the Practical Guidelines, ESMA argues that this should be significantly tightened. Accordingly, in this case, a client must adjust its sustainability preferences before a recommendation may be issued.*

MiFID II extensions: Comprehensibility



A look at the second core requirement shows that two other groups are to be considered, in addition to the query of sustainability preferences. In addition, desired minimum investments in ecologically sustainable investments according to the taxonomy (Art. 2 No. 7a), as well as sustainable investments according to the Disclosure Regulation (Art. 2 No. 7b) should be part of the questionnaire.

For the sustainable investments and the sustainability preferences, there is also the recommendation of ESMA to query the desired focus in E, S and/or G. This approach alone is already a significant challenge.

The practical application is further complicated by the fact that all clients (regardless of knowledge, experience & interest) have to answer the same level of detail. In addition, different EU countries and institutions are working on various other ESG labels[8] which will exceed the understanding of a conventional retail client and their adviser – and this does not yet include the explanation of an adviser between taxonomy and disclosure regulation on the one hand and the trade-off between sustainability and risk/return on the other.

All in all, it can be said that the **survey of sustainability preferences is a theoretically abstract construct that experts made for experts**. **It addresses in no way, or even takes into account, the needs and level of knowledge of the target group of clients and advisers.**

[8] *The FNG seal in Germany or the EU Ecolabel (Eurosif) are representative examples.*

Firms should collect the following information from clients:

Whether the client has any sustainability preferences (yes/no). 1

Whether […] the client has sustainability preferences with regard to aspect a), b) or c) […] and if the client has a preference for […] a combination of one or more of the three aspects. 2

For aspects a) and b), the minimum proportion. 3 5

For aspect c), which principal adverse impacts (PAI) should be considered including quantitative and qualitative criteria demonstrating that consideration. 7

To achieve this, firms could choose the following approach:

First, firms could collect information on the degrees of sustainability related expectation of the client which would refer to one or more of the aspects expressed through a) to c) […] 2

When doing so, firms could also assess whether the client would only prefer one certain degree of sustainability-related expectation or whether more or all of them should be part of its preferences. This aspect could be assessed through closed-ended yes/no-questions. 2

Where the client wishes to include more or all of the aspects mentioned under a) to c) […], this could be either assessed and matched on portfolio level or on the level of the financial instrument […] 2

When providing portfolio management or investment advice […] the firm could also ask the client to what extent financial instruments according to a) to c) should be included in client's investment/portfolio.

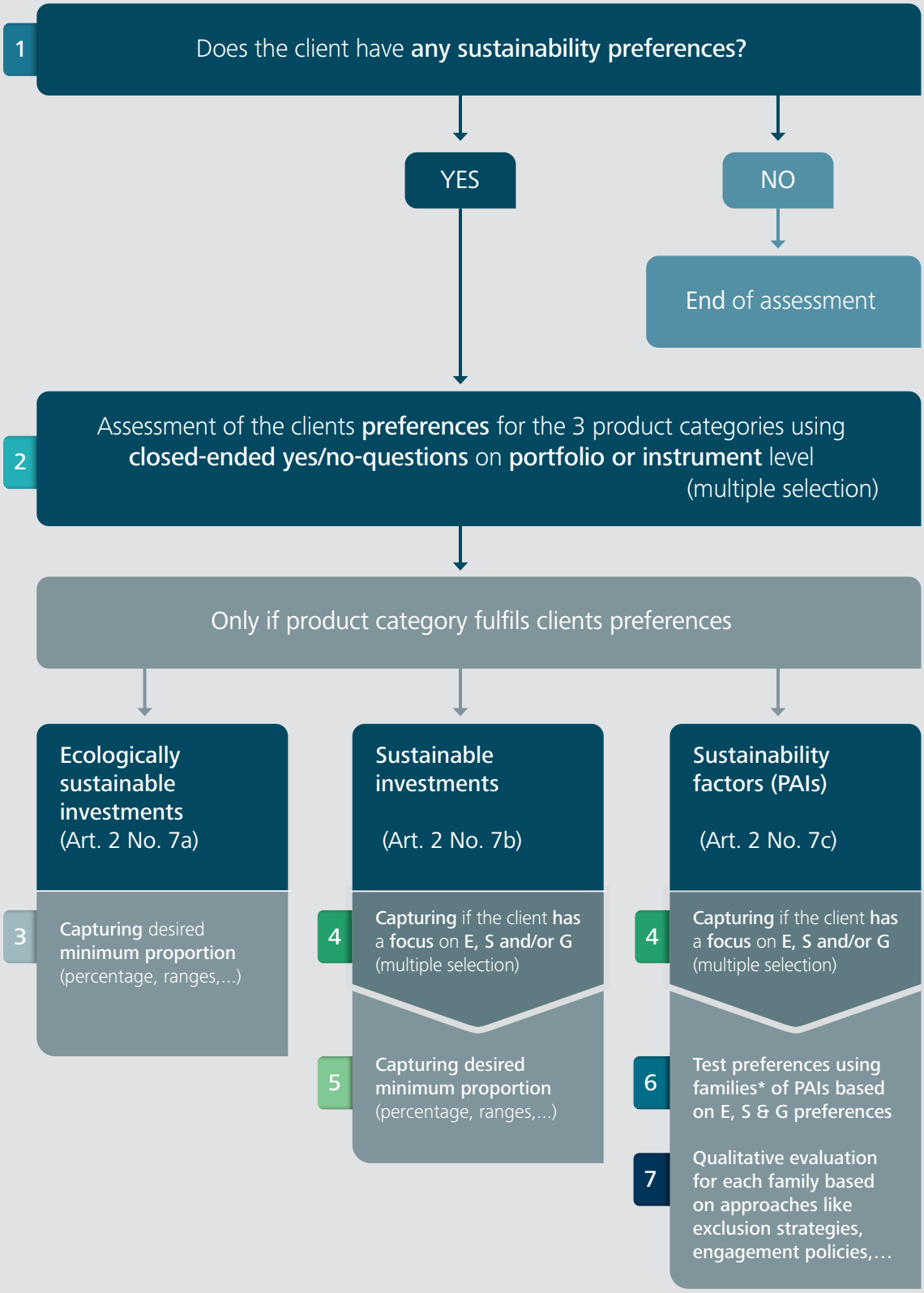
Firms could, as a second step, also collect information on whether the client's sustainability preferences with regard to b) and c), if any, have a focus on either environmental, social or governance criteria or a combination of them or whether the client does not have such a focus. 4

As a third step, firms could collect information on the client's preferences in terms of the "minimum proportion" as mentioned in a) and b) if the client requested to include these financial instruments in the investment. Where a firm decides to collect this information not in terms of particular percentage but by ranges or sizes, these ranges should be presented in a neutral way to the client and should be sufficiently granular. 3 5

In case the client wishes to include a financial instrument that considers PAI, the information collected should cover the PAI and qualitative and quantitative elements mentioned under c).

Firms could test the client's preferences and appetite for PAI integration with regard to the families of PAI indicators as whole, based on a possible focus of the client on environmental, social or governance aspects, using the categories presented in the SFDR RTS (instead of an approach based on each PAI indicator) such as emissions, energy performance, water & waste, etc. 6

A qualitative evaluation could then be initiated for each category that is important/key for the client or not. This qualitative evaluation could be based on the approaches in which products consider PAI (e.g. exclusion strategies / controversies policies / voting and engagement policies). 6



*PAI families like Greenhouse gas emissions, water, waste, social & employee matters

Figure 2: Proposal to query sustainable preferences by ESMA[9]

[9] *ESMA (2022): ESMA consults on the review of MiFID II suitability guidelines*

MiFID II extensions: Promoting acceptance

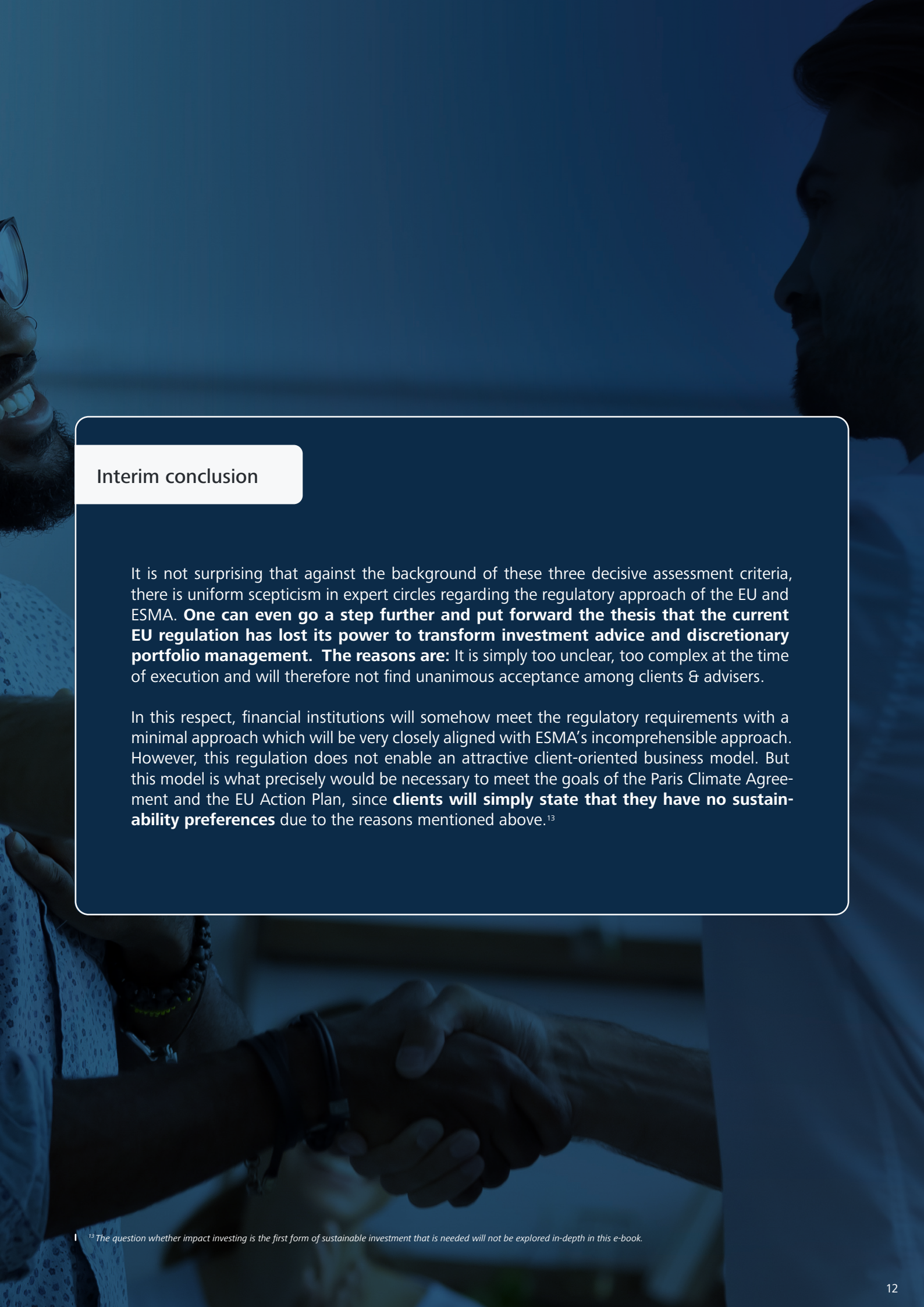


Concerning the third core requirement, each country in Europe must view the picture differently. While France, for example, will see this requirement as fulfilled, this looks different in other European countries (e.g., Germany & Switzerland) and the UK[10].

The decision of the EU Commission earlier this year to classify nuclear energy and gas as "green" in the taxonomy will ensure that clients in many EU countries will not find acceptance for the intended regulation. Impressively, the EU Commission's action against the expert opinion of the Sustainable Finance Platform shows that the envisaged science-based consensus initially has become a political compromise.[11]

Most recently, when it is explained to a German or Swiss client that shares in gas companies are sustainable and therefore fulfil their preferences for ecological investments, they will lose their approval. As reinforcement, it can be stated that this criticism has even found its way into the daily mainstream news, and we all know the power of opinion-forming the media has...[12]

[10] Spiegel (2021): Baerbock lehnt Frankreichs Pläne zu »grüner« Atomkraft weiter ab
[11] Institutional Money (2022): EU-Taxonomie inklusive Atom und Gas: Das sagen Branchenvertreter dazu
[12] Tagesschau (2022): Eine Ohrfeige für die EU-Kommission



Interim conclusion

It is not surprising that against the background of these three decisive assessment criteria, there is uniform scepticism in expert circles regarding the regulatory approach of the EU and ESMA. **One can even go a step further and put forward the thesis that the current EU regulation has lost its power to transform investment advice and discretionary portfolio management. The reasons are:** It is simply too unclear, too complex at the time of execution and will therefore not find unanimous acceptance among clients & advisers.

In this respect, financial institutions will somehow meet the regulatory requirements with a minimal approach which will be very closely aligned with ESMA's incomprehensible approach. However, this regulation does not enable an attractive client-oriented business model. But this model is what precisely would be necessary to meet the goals of the Paris Climate Agreement and the EU Action Plan, since **clients will simply state that they have no sustainability preferences** due to the reasons mentioned above.[13]

[13] *The question whether impact investing is the first form of sustainable investment that is needed will not be explored in-depth in this e-book.*

ESG regulation as a small part of the sustainability megatrend

At this point, it is time for the word **"but".**

Fortunately, the ESG regulation is only a small part of the sustainability megatrend. Due to its design, the ESG regulation of ESMA and the EU Commission has no transformational power in the sense of the EU Action Plan. However, the megatrend sustainability itself does – and in recent years, it has done so without additional regulatory (procedural) requirements in investment advice and discretionary portfolio management, but rather decisively determined by a transformation of social norms and values that has begun.

A look at the market developments of the last few years and the expected future investments in sustainable investments is exceptionally remarkable. According to analyses by the Financial Times, the share of sustainable ESG investments in the European fund sector alone will increase from currently 15% to 57% in 2025.[14] These expectations are in line with research by the Boston Consulting Group, which shows "that demand for sustainable ESG investments will increase by a dramatic 20.8% per year, whereas conventional investments can only expect an increase of 5.8% per year".[15] Morningstar analysis shows that this trend exists even in the US, with "a 39% increase in sustainable assets under management from the end of 2020 to September 2021 due to a strong interest in ESG issues."[16] The list of comparable sources could be continued almost endlessly at this point.

In this respect, it can be stated that the demand for sustainable investments is a megatrend. The strong demand is not only limited to private clients but also includes institutional investors. However, it is crucial that, like the FNG's current market report for 2021 shows, "private investors represent the driver of growth in sustainable investments."[17]

However, the megatrend of sustainability is not limited to the demand side of private clients and institutional investors. Financial institutions have also been picking up on this trend for some time. Surveys and analyses by BNP Paribas show, for example, that brand and reputation (59%) is the main driver for financial institutions to undertake ESG initiatives and investments.[18] This supports findings from Morgan Stanley, which also cites reputational benefits as the main driver for ESG initiatives and investments (63%).[19] The Gartner analysts even go one step further and state that ESG initiatives by companies should always be considered in the intersection of growth, risk and brand.[20]

[14] *Financial Times (2020): ESG funds forecast to outnumber conventional funds by 2025*
[15] *BCG (2020): Making ESG Your DNA: How Wealth Managers Can Grow Through Sustainability*
[16] *SustainFi (2022): 30 ESG and Sustainable Investing Statistics*
[17] *FNG (2021): Marktbericht Nachhaltige Geldanlagen 2021*
[18] *BNP Paribas (2021): The ESG Global Survey 2021*
[19] *Morgan Stanley (2020): 7 Insights from Asset Owners on the Rise of Sustainable Investing*
[20] *Gartner (2021): A Guide to Understanding ESG Ratings and Setting Long-Term ESG Strategy Plans*

ESG Initiative Prioritisation Framework

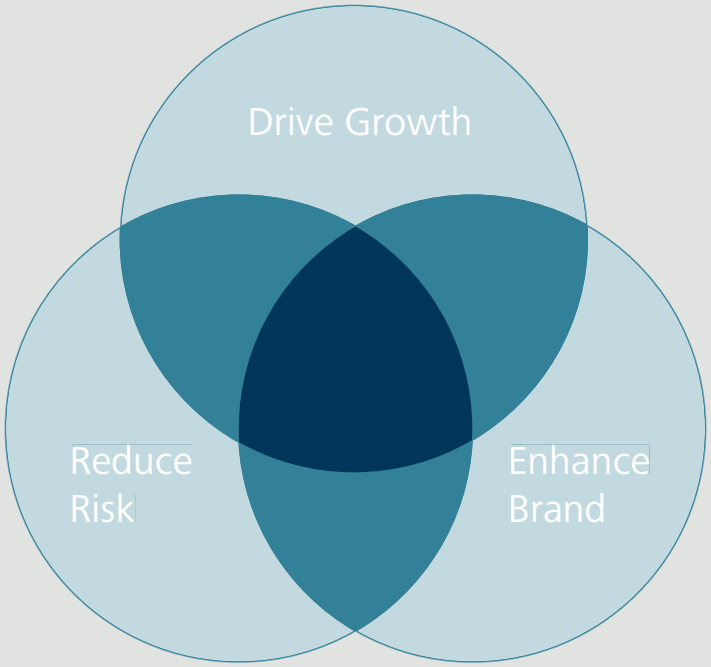


Figure 3: ESG Initiative Prioritisation Framework by Gartner

Based on the above-mentioned analyses and studies, it can be concluded that the **megatrend sustainability can help a financial institution to significantly strengthen its brand and reputation**.[21]
This point becomes even more crucial when looking at the age structure of (future) private clients. A representative study by the Boston Consulting Group from 2020 impressively shows that "95% of Millennials and Generation Z are interested in sustainable investments".[22] Consequently, the younger generation will take up the megatrend of sustainability and will undoubtedly continue intensively. In this context, Forbes already headlined that Generation Z is "the generation of sustainability".[23]

The initiatives of financial institutions to add green colour to their brand and reputation should therefore be seen against the background of their attractiveness for younger generations.

The attractiveness of financial institutions for the younger generations becomes even more crucial before the upcoming **Great Wealth Transfer**. The upcoming inheritances of the younger generations will represent one of the largest wealth transfers in human history. In Europe alone, the baby boomer generation will bequeath assets worth 2,600 billion euros to younger generations by 2030.[24] Estimates vary for the USA but will once again significantly exceed the inheritable wealth of the baby boomers in Europe.[25] As a result, Millennials and Generation Z will accumulate significant wealth in the coming years, prioritising for sustainable investment. Jennifer Lee summed up the Great Wealth Transfer very aptly last year

> "**The upcoming wealth transfer is about more than just money; it's about preference**. By now, it's well-known that we're in the midst of the **largest intergenerational wealth transfer in history**, as the Baby Boomers pass down their assets to the next generation in the form of inheritance." (Edison Partners, Jennifer Lee) [26]

[21] *In this sense, analyses by PWC also show that 82% of investors believe that ESG should be an integral part of corporate identity, PWC (2021): PwC's Global Investor Survey: The economic realities of ESG*
[22] *BCG (2020): Making ESG Your DNA: How Wealth Managers Can Grow Through Sustainability*
[23] *Forbes (2021): Gen Z Is Emerging As The Sustainability Generation*
[24] *Money Today (2021): "The Great Wealth Transfer" – Sind wir bereit für den grössten Vermögenstransfer der Geschichte?*
[25] *Forbes (2021): Why ESG Should Be Embedded In Banks*
[26] *Edison Partners (2021): The Upcoming Wealth Transfer is About More Than Just Money, it's About Preference*

However, from the perspective of financial institutions, the preferences mentioned by Jennifer Lee do not exclusively refer to the demand for sustainable investments. More willingly, the younger generations have other inclinations that need to be considered. According to a study by Capco, Millennials and Generation Z show a 3-4 times higher willingness to change their financial institution. While only 13% of Baby Boomers consider changing their financial institution, this figure is already 42% for Generation Z and even more than half (53%) for Millennials.[27] **Consequently, a financial institution that is attractive to younger generations can benefit immensely from the megatrend sustainability in the future and prevent migration to competitors.**

A financial institution will not achieve attractiveness for the younger generation solely and exclusively by only offering sustainable investments. As Oliver Wyman already pointed out in Asset Management Trends 2022, this requires a transformation from offering ESG products to an attractive ESG experience for clients.

> "While all products will need to satisfy basic financial needs, leading asset managers will take a "customer first" approach and design holistic experiences — where the product design is just one aspect — **to satisfy higher order needs like fulfilling purpose, creating impact, building trust and sense of community, and even triggering joy**." (Oliver Wyman, 2022)[28]

Change to a sustainable experience, which is necessary for attractiveness, is also confirmed by a study by Cerulli Associates. The results showed that for the majority of the younger generations (2/3 of all study participants) "ESG is a real differentiator between firms" and "many are willing to leave a firm based in the quality of their ESG offering and how it is delivered to them."[29]

The sustainability megatrend can and must therefore be the starting point for an attractive investment experience for the younger generations. In this context, it is interesting to note that surveys conducted by Natixis in 2021 show that 49% of clients worldwide have already asked their financial institution to integrate ESG factors into analyses of their investments and portfolios.[30] In the same study, 41% of clients stated that they had already asked their financial institution whether an investment that matched their individual preferences would be possible. This study is representative of several others and shows that the shift towards a (personal) investment experience is gaining momentum – at least on the demand side.

Without investments, expanding financial institutions' current (service) offers into attractive experience offers will not be possible. However, these necessary investments match a higher willingness to pay on the client side. Exemplary studies and research results from Simon Kucher & Partners[31] and McKinsey & Company[32] show that up to 2/3 of clients would pay an additional 5% for attractive green offers compared to the non-green alternative.
Therefore, the following result of a Compeer study from Feb 2021 is not surprising:

> **"100% of wealth management firms see ESG as a commercial opportunity". (C-level research by Compeer Feb 2021).** "Client demand is the main driver of ESG integration at firms. Indeed, wealth management clients increasingly want their **investments** to **align** with **their values** and want to '**do good while doing well**'."[33]

[27] *Capco (2021): Insights for investments to modernize digital banking*
[28] *Oliver Wyman (2022): Asset Management Trends 2022*
[29] *Tariq Khan on LinkedIn (2021): ESG: A golden opportunity to engage with clients*
[30] *Natixis (2021): Values alignment is only the tip of the iceberg for ESG*
[31] *Simon Kucher & Partners (2021): Global Sustainability Study 2021*
[32] *IMSA Search (2021): ESG – This Driver of Value is Here To Stay*
[33] *Tariq Khan on LinkedIn (2021): ESG: A golden opportunity to engage with clients*

Interim conclusion

In summary, the megatrend sustainability has the potential and power to enable new attractive and client-focused business models and attractive (service) offers for financial institutions. This is especially true in the context of the great wealth transfer and the needs of the younger generations which will soon be very wealthy. At the same time, this could promote the transformation of financial flows into sustainable investments, as envisaged by the EU Commission in terms of the taxonomy and disclosure regulation.

Against this background, the central question now is <u>how</u> sustainability needs can be integrated into (existing) wealth management services like investment advice and discretionary portfolio management?



+20,8%

increase in demand for sustainable investments per year



+5%

increased willingness to pay for green offerings



100%

of wealth management firms see ESG as a commercial opportunity

Hyper personalisation as an important toolkit for wealth management

Against the background of the above, the prerequisite for an attractive, sustainable investment experience is that a client's investments correspond to their own personal values and requirements for sustainability. The toolkit of hyper personalisation can be used to meet these wealth management requirements. The core idea of hyper personalisation is precisely the **segment of one**. Each client receives offers and recommendations that correspond to their values. This cannot be achieved with a traditional model portfolio approach, for example.

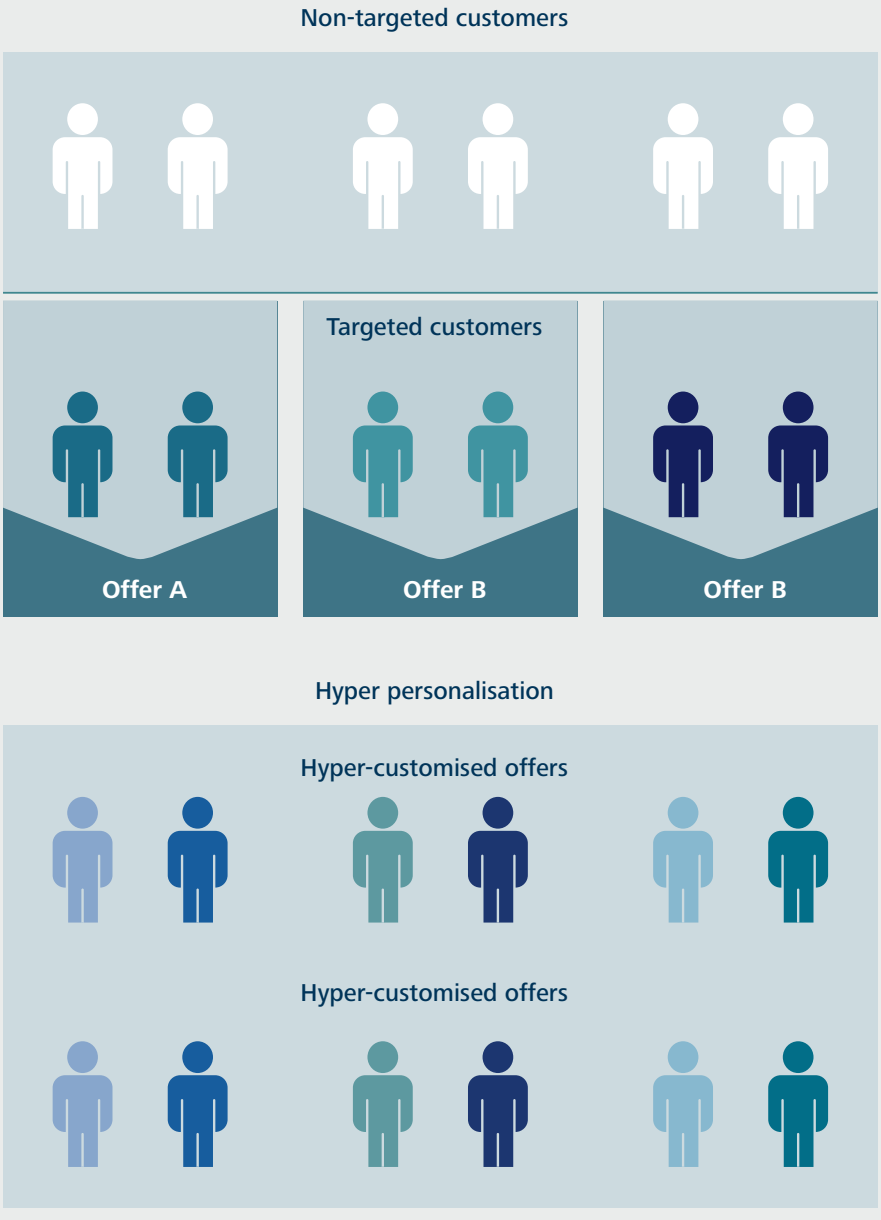


Figure 4: The concept of hyper personalisation high level

In this respect, there is a very close connection between sustainable investments and investments according to personal values – it is, in fact, the same thing from a technical implementation view. In both cases, the core of the requirement is to query individual data points as constraints and to take these into account in portfolio construction and portfolio reporting.

A report by Natixis can be used to support this thesis. According to the current ESG Investing Report[34] the global average of clients who want to achieve a positive social (sustainable) impact with their investments is 71% – in contrast, as many as 81% of clients want their investments to align with their individual values. In this context, it is also worth mentioning the results of Salesforce research concluded that "66% of clients expect their financial institutions to understand their individual needs and expectations".[35]

However, to round off the investment experience, it is not only necessary to query the personal values of clients and generate corresponding recommendations. Rather, the requirement must be a complete round trip. The round trip starts with a survey of personal preferences and ends with the regular personal reporting of investments, which, based on the above findings, explicitly also includes ESG reporting, if a client desires so. As a result, a wow factor is created in client contact[36] and client satisfaction can be increased by up to 20%, according to McKinsey & Company[37]. This, in turn, can provide a boost in sales conversion rates by 10% to 15%[38] and 80% of clients would do even more business with their financial institution[39].

Consequently, the basic concept of hyper personalisation seems to be a valid approach to bring sustainable client needs into wealth management.
Coming back to the needs and requirements of the younger and soon-to-be very wealthy generations, the approach of hyper personalisation seems advisable even without explicit sustainable requirements. A large proportion of Generation Z (95%) and Millennials (83%) can imagine using financial services from Big Techs – in contrast, the share of today's affluent target group of Baby Boomers is only 30%.[40] This new competition will become a reality for financial institutions in the wake of the embedded wealth trend[41]. The reason for the younger generation to use financial services from Big Techs is precisely that Big Techs make personalised offers easy. Only 20% of the younger generations consider personalisation in investment to be neutral or not important.[42] In this respect, hyper personalisation supported by an attractive, sustainable experience can be an appropriate measure to reduce vulnerability against Big Techs. This is especially true because, according to current estimates by the Boston Consulting Group, a financial institution can achieve 30 basis points additional revenue if it enables hyper personalised service offerings.[43] **Combined with the increased willingness of clients to pay for green financial services, this appears to be an attractive business model for financial institutions.**

The mentioned studies and reports by various financial market participants are also supported by academia. For example, Prof. Dr. Christian Klein (Chair for Sustainability Finance, University Kassel, Germany) and a group of colleagues published an interesting study entitled **"On the heterogeneity of sustainable and responsible investors"** in the Journal of Sustainable Finance & Investment.[44] The core of the study was formed by a representative group of 1,014 investors, which was very heterogeneously distributed in terms of their attitude and experience in sustainable investments. Based on various sectors, industries, sustainable criteria for companies and countries, the respondents were asked different questions. When asked which sustainability criteria in terms of sectors they would like to avoid with their investment, investors chose more than 500 unique combinations.

This means that almost 50% of the investors had unique, personal preferences when choosing sustainability criteria for their investments. As a result, they summarise that

> **"A one size fits all approach** in designing sustainable investment offers **appears quite unreasonable. It seems to be more important to […] ask for their individual preferences."[45]**

[34] *Natixis (2021): 2021 ESG Investor Insight Report - ESG Investing: Everyone's on the bandwagon*
[35] *Salesforce (2020): Trends in financial services*
[36] *Capgemini (2020): Getting engagement "right" in wealth management through interactive, personalized reporting*
[37] *McKinsey & Company (2020): Personalizing the customer experience: Driving differentiation in retail*
[38] *ibid.*
[39] *The Financial Brand (2018): 94% of Banking Providers Can't 'Personalize' Marketing or CX*
[40] *Accenture (2021): The New State of Advice - Wealth Management Consumer Report*
[41] *see also separate e-book on embedded wealth*
[42] *Capco (2021): Insights for investments to modernize digital banking*
[43] *BCG (2019): What Does Personalization in Banking Really Mean?*
[44] *B. Zwergel, A. Wins & C. Klein (2019): On the heterogeneity of sustainable and responsible investors in Journal of Sustainable Finance & Investment, Vol. 9 Nr. 8, pp. 1-13*
[45] *ibid.*

Interim conclusion

According to the preceding sections, clients have very individual and often personally unique criteria when deciding on a sustainable investment. At the same time, the younger generations, in particular, expect personalised offers from their financial institution. Consequently, from a financial institution's perspective, the toolkit of hyper personalisation becomes all the more important to integrate into existing services. Only in this way will it be possible to take up the megatrend of sustainability not only from a marketing and branding perspective, but also, to protect against the vulnerability of Big Techs.

The core elements of future software solutions will be a personalised portfolio construction and attractive portfolio communication, which, combined with a generic query of personal preferences, can represent a future-proof service offer for investment advice and discretionary portfolio management.

Final conclusion

The ESG regulation on the extension of MiFID ll for investment advice and discretionary portfolio management, which is incomprehensible due to the chosen approach of ESMA and the EU Commission, will not lead to a necessary transformation in the sense of the Paris Climate Agreement.

The activities to date are far too unclear and complex for that. Rather, it is crucial to take up the paradigm shift that has begun in society and to continue the megatrend of sustainability. In order to do this in a client-oriented way and to meet client demand, it is necessary to bring a personalised sustainable experience into investment advice and discretionary portfolio management. Only in this way will financial institutions be able to meet the demands of the younger and soon-to-be very wealthy generations. At the same time, previous studies suggest that this can also be an attractive business model for financial institutions. Clients are willing to pay more for sustainable investments and at the same time increase existing investments with their institution if they receive an exceptional, personalisied experience.

In this respect, the **target picture** for **future personalised services** can be presented as a round trip.

Key is to have a generic approach (linear) for contraints

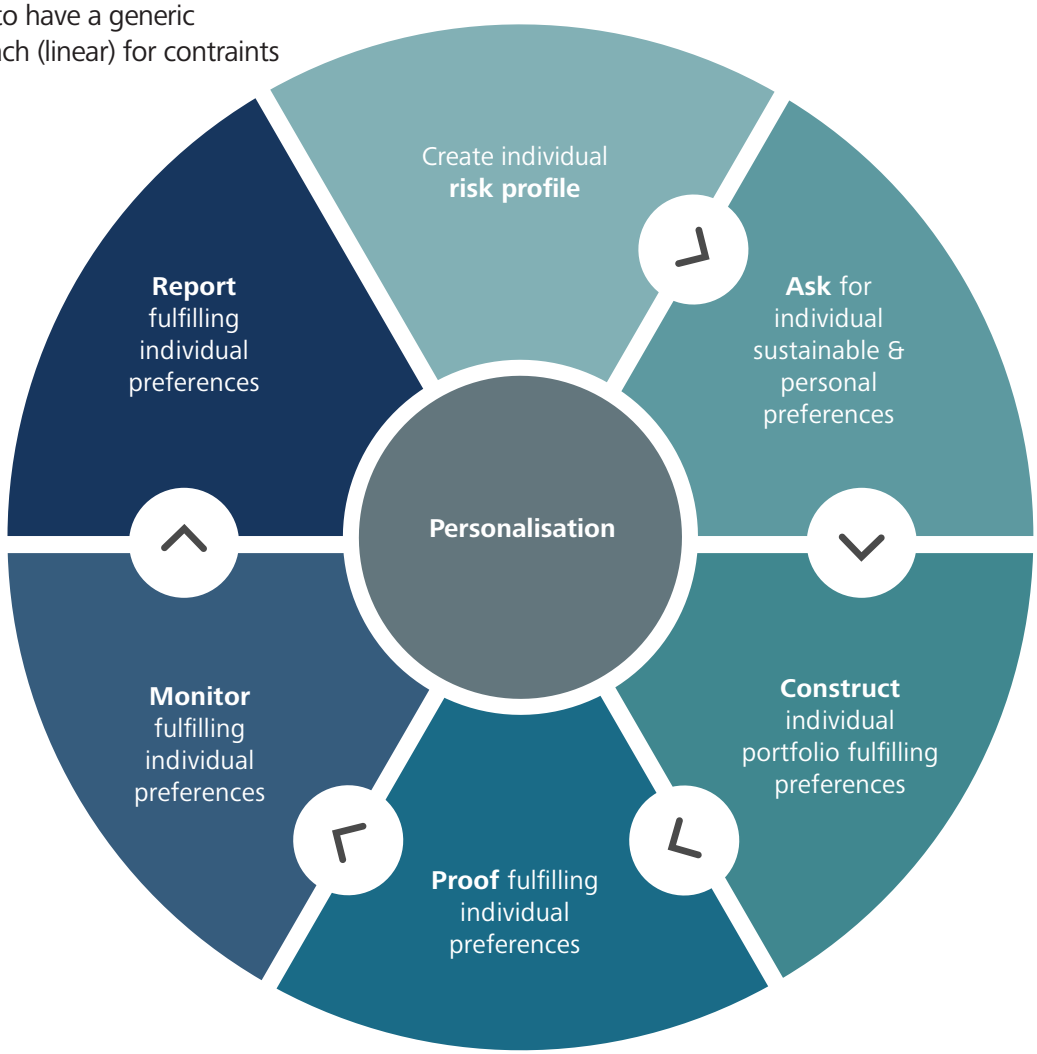


Figure 5: Hyper personalisation roundtrip to meet sustainability megatrend

One last valuable comment

The existing regulatory activities against the background of greenwashing are explicitly important, and the taxonomy is a first good & important step in the right direction. This is also shown by the most recent initiatives of the arms industry, which is trying to position itself against the background of the extension of the taxonomy to include social aspects[46]. **The criticism in this e-book does not refer to the "why", but rather to the "how" and the "what" of the chosen approach** – and this with the clear focus of client-oriented services in investment advice and discretionary portfolio management. There is simply nothing to be gained from clients saying that they would rather not have sustainability preferences in this case due to the complexity & widespread knowledge gaps. **Therefore, it is even more fundamental to design the attractiveness of future services in a way that intelligently integrates regulatory imperfections and still manages to inspire clients with personalised sustainable offers.**

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[46] *Welt (2022): Die Rüstungsindustrie ist entsetzt über die Pläne der EU*



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