

Sustainable Investment among Retail Investors in Japan

○Miwa Nakai*, Daniel Engler**, Gunnar Gutsche**, and Andreas Ziegler**

1 . Introduction

Since 2014, the sustainable investment market in Japan has been rapidly expanded due to several epoch-making events such as the introduction of Japan's Stewardship Code and GPIF (Government Pension Investment Fund)'s signatory to the Principle for Responsible Investment. Yet, its growth is attributed to investments by institutional investors such as GPIF, and the proportion of sustainable investments by individual investors is only around 1% (JSIF, 2023). Considering the financial market size, there is a tremendous potential to increase the sustainable investing by individual investors, which can play a crucial role in driving the transition towards a more sustainable economy.

Given the fact that awareness of and investments in sustainable financial products among individual investors in Japan remains low (Gutsche et al., 2021), this paper aims to investigate the determinants of awareness and holding sustainable investments. Following previous studies (e.g., Anderson and Robinson, 2022; Gutsche and Zwergel, 2020), we consider different types of factors which promotes or prevents sustainable investment such as the credibility of financial product provider, perceived return on sustainable investment, the tangible impact of sustainable investments on societal and environmental issues in the real world, or financial literacy.

2 . Methodology

The data for our analysis stem from a representative online survey conducted in March 2024 in Japan among financial decision makers and individual investors aged over 18 years old. For the purpose of this study, individual investors are defined as those who either possess or possessed investment product, or possess sufficient knowledge of investment products. The questionnaire consists of four parts: (i) individual investment behaviour, (ii) individual sustainable investment behaviour, (iii) financial literacy, economic preferences, and personal attitudes, and (iv) socio-demographic background. Overall, we have 1,808 respondents, of which 1,516 are current investors.

* Faculty of Economics, Fukui Prefectural University
4-1-1 Matsuoka-Kenjojima, Eiheiji, Fukui E-mail: miwanakai@fpu.ac.jp

** Institute of Economics, Unit Empirical Economic Research, University of Kassel

3. Results and Conclusion

We find that the awareness of sustainable investments in Japan is 35%, which is higher than our previous survey in 2020 (i.e. 20%) but much lower than European countries (e.g. 45% in France, 57% in Germany, and 79% in Netherlands) (Engler et al., 2021). Based on binary probit model, individuals who are current investors, have higher financial literacy, identify him/herself with liberal oriented policies, and have an intention to contribute to a sustainable development with own behavior are positively related to the probability of being aware of sustainable investments. Socio-demographic characteristics such as holding the university degree also affect its awareness. Regarding the share of sustainable investors, our survey finds that only 5% of respondents hold sustainable investment products, which is also much lower than European countries. Interestingly, financial literacy and socio-demographic characteristics are no longer relevant for the determinants of sustainable investors. Instead, investment behaviour and beliefs (e.g. social peers on investment and perceived higher return on sustainable investment), personal values such as environmental values and ecological political identification, and economic preferences are the important determinants to be sustainable investors.

Finally, regarding the determinants of keeping or increasing the proportion of sustainable investment in the future among the current sustainable investors, we find that belief on “the search for sustainable investments is very time-consuming” significantly reduces the possibility to hold sustainable investment products in the future, in addition to determinants to be the current sustainable investors. On the other hand, individuals who trust the providers of sustainable investment products are more likely to keep or increase their sustainable investments. Based on our findings, methods to mobilise individual investors should include reduction of information asymmetries by providing targeted, transparent, and comprehensible information on the relative financial performance, the environmental impact of sustainable investments, and the financial provider.

Reference

- Anderson, A. and Robinson, D.T., 2022. Financial Literacy in the Age of Green Investment, *Review of Finance* 26 (6), 1551–1584.
- Engler, D., Gutsche, G., Smeets, P., 2021. Individual preferences for sustainable investments across Europe - A framed field experiment in five countries, available at OSF: <https://osf.io/6kyja>
- Gutsche, G. and Zwergel, B., 2020. Investment barriers and labeling schemes for socially responsible investments, *Schmalenbach Business Review* 72, 111–157.
- Gutsche, G., Nakai, M., Arimura, T. H., 2021. Revisiting the determinants of individual sustainable investment – The Case of Japan. *Journal of Behavioral and Experimental Finance* 30, 100497.
- JSIF (Japan Sustainable Investment Forum)., 2023. White paper on sustainable investment in Japan. <https://japansif.com/wp2022en>