



A Study on ESG Investments and Millennial Investors in India

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I. INTRODUCTION

ESG investment which has already gained prominence in the international market, is yet to strengthen its hold in the national economy. It is the assimilation of Environmental, Social and Governance factors while making long term financial decisions.

Markets like the US and Europe are driving towards environmentally focused and socially viable opportunities by encouraging renewable deals and projects, launching ESG sound financial schemes and ramping education based on the same topic. But all of this can be called “reaction” to the investors “action”. In fact SEC (Securities and Exchange Commission) also opines that exponential increase in the investors’ interest in ESG investments has led them to ensure that investors are provided with more viable and accurate information to use in their financial decisions.

Investors (Globally) aim to customize their investments based on their set of personal and inherited values, especially ESG factors and 90% among them are millennials. As per 2018 survey, 87% of HNWM (High Net-Worth Millennials) prefer sleuthing company’s ESG and BRR (Business Responsibility Reporting) before investing. It’s not only the integration of money and values in the sustainable business models but also the lucrative financial returns in the long term.

II. THE EUROPEAN & THE US MARKET

European Union is at the vanguard of environmental, social and governance measures. Currently, the European ESG and sustainable fund market could be worth more than €2.5 trillion. Companies like Bayer (Germany), Eni (Italy), Nestle (Switzerland) and Anglo-Dutch Unilever rated “Gold class” among Europe’s top 50 listed companies in ESG integration. Europe has successfully assimilated ¼ of their market to ESG funds. The surge in investors’ interest has convinced them to regulate the ESG market more efficiently. They have already adopted SFDR (The Sustainable Finance Disclosure Regulation) which aims to ensure that asset managers, financial advisors and financial market participants take into account ESG factors in financial decision making process and stakeholders are unequivocally informed about a company’s ESG objectives and their potential to meet the same.

Europe has undoubtedly set standards for many countries when it comes to ESG investing and surprisingly it has also outperformed the US, the world’s largest and deepest market for investors. Europe had \$2.1 trillion more sustainable assets as compared to the US in 2018 as per the survey by Global Sustainable Investment Alliance. But what is that inverting force in the US? Is it investors’ safer approach or there are federal and regulatory roadblocks? The answer to this is both the driving forces of the economy continue to adopt conservative investment policy. RBC Global Asset Management survey data showed that only 5% US respondents think ESG investments to perform better while 26% expect them to perform worse. These percentages are the outline of the skeptical

thought that US investors hold because the understanding of the ESG model is confined to eliminating tobacco and carbon emission companies. US investors' fear for low returns and organizations' perception of ESG as a cost to financial returns are the gravitational forces pulling the US economy to top the list of ESG market. Even conservative political regulatory framework especially during Trump's rule where the federal discouraged sustainable investing and pulled out of the Paris Climate Accord are the additions to the underlying scenario. But every year numbers are changing as investors' approach towards green investment. Of course the federal government plays a crucial role in building the mindset of a country's population and with "Green President" on board, investors are optimistic about rolling their financial dice on the sustainable block.

But those who had already planted their money on the roots of sustainability got fruitful returns with companies like Enphase and Digital Turbine whose stocks gained 470% and 673% respectively in the FY2020. There was also one of the Canadian companies which saw this trend of ESG investing years ago and decided to build their image with the mission "we strive to do business fairly, equitably and sustainably" in the minds of customers and investors before any other company could think of and as a result its stock prices surged close to 590% last year. Not only stockholders but tax credit companies like Foss & Co. shook the market when they could help the lender BOA (Bank of America), slashing the corporate rate tax to 5.8% from 21%. JPMorgan Chase & Co., Citigroup and Morgan Stanley also announced a pledge to finance and facilitate at least \$2.5 trillion and \$1 trillion respectively in sustainable and climate friendly deals. Surely these numbers have revived the ideology of American investors towards ESG investing but there is still a long way to run.

III. INDIAN MARKET

If we could see America is still building their base towards ESG investments then the next question would be what is India's scenario? What could be the possible actions India is taking to mitigate the emerging environmental risk? Will the boat of ESG investments sail in India? Half of it can be answered by tracing the actions taken by the nation since 2007. From RBI's advice on CSR (Corporate

Social Responsibility) activities to SEBI's (Security and Exchange Board in India) mandate for the 100 largest listed companies to publish BRR (Business Responsibility Reporting) in 2012, it was all about cementing small bricks of ESG in Indian market. 2013 highlight was the ESG Leaders Index by MSCI and 2015 was marked by RBI's inclusion of renewable energy within the priority sector lending requirements for banks but 2018 nominated as the striving year when BSE (Bombay Stock Exchange) published the guidelines on ESG disclosures for voluntary ESG reporting as it underscored the importance of ESG disclosures to investors. In fact the Nifty 100 ESG index was also launched in the same year. There onwards, India saw the emergence of sustainability oriented indices like S&P BSE Greenex, S&P BSE Carbonex NIFTY 100 enhanced ESG index and many more.

But these actions alone suffice India's hold on ESG investments? Clearly No. Market participants, Organizations and Investors' contribution together can help in achieving the aspirational ESG target. But the degree of understanding the impact that ESG investments hold, on an economy as a whole, lacks in India. In other nations where investors take the lead in ESG engagements, Indian investors are not really aware of what benefits ESG investments hold to the society, the environment and the financial system. But this is not only because of the inefficient education of ESG platforms in the financial market but also the idle society's charge on the despicable human activities towards nature and the environment and its potential impact on the health of future generations. Due to this, organizations are growing and developing their ESG module at a much slower rate. Unavailability of the quality data and information about the companies' performance in the ESG matrix, speculative definitions of the ESG terminology and unstandardized ESG data collection and reporting methodologies all continue to be rock-solid barriers in scaling ESG investments in India. But do you think the "youth" of India which is giving market to an ample number of sectors and to the other nations, will prove to escalate ESG investments in India?

IV. PROBLEM STATEMENT

Investors have become more conscious about their investments and its possible impact on the environment and the society. The project aims at analyzing the factors affecting those decisions and attitude of retail investors before making investment decisions.

V. OBJECTIVES OF THE STUDY

- To study the awareness of ESG investments among the millennial Indian investors.
- To analyze the factors influencing retail investors' decision in the ESG market.
- To analyze the investors attitude and perception towards ESG investments.

VI. ANALYSIS AND FINDINGS

To analyze this we did a survey among millennials and early Gen-Z groups on the ESG. It involved 210 respondents (118 were male and 92 were females) from different regions of India. The idea was not only to discover their attitude towards ESG investments but also to help the young population learn about the existence of ESG in finance. With this we tried to explain the ESG investment with the help of a short video that has surely got the attention of the youth and potentially opened doors to a new investment strategy for the Indian investors which they might not be aware about. But before deliberating the relation between ESG investment and Indian investors' outlook towards it, we have some interesting facts and mind-boggling figures.

There were only 29% females and 71% males who invest their money in any financial platform contributing to 47.6% of the total respondents and those who don't invest, rely on their family for the financial investment made on their behalf and FD's (Fixed Deposits) with 53.6% are the most preferable and safer investment option that the baby boomers generation (1946-1964) have picked for their future ones but the astonishing fact here was that 20% of the respondents didn't even know what kind of investments they hold in the first place. This number surely makes the youth incapable of understanding the need for financial investment.

Those who make financial decisions either on personal savings (93%) or family borrowings (24%), are more interested in the functioning of the stock markets and MF (Mutual Funds) with 67% and 61% respectively making them part of the portfolio. Now as they make investments in the financial market, do their decisions inculcate ESG factors? But were they aware of the ESG investments in the first place? 43% of them have no clue what ESG investments are and 30% of them now holds the knowledge on this prevalent topic with our survey.

Even if they are not familiar with this kind of investment they still like to dedicate a portion of their portfolio towards the environment, society and governance. Exponential increase of carbon emission, degrading climatic conditions and resource depletion weigh the highest preference among the three factors making them more inclined and steward towards environmental investing.

Apart from our survey being one of the sources of information on ESG investments, there were plenty of other sources which our respondents found reliable and trustworthy before making any financial investment decision in the ESG proclaimed market. News articles and investment consultants do provide valuable data of information but personal research is the most convincing and satisfying reference respondents could give accumulating to 75.43%.

Even though the above numbers are pleasant, close to half of the respondents i.e. 47.4% find it difficult to segregate ESG investments. Not only the existence of different ESG investment platforms but the screening of them is an alarming situation that needs to be highlighted in the Indian financial market. Investors from the stock market and the MF industry perform the screening on the basis of their needs, targets and budgets and if we apply the same approach on the developing ESG module we can build the rotten road of ESG investments in India.

The figure 1 vividly demonstrates that millennials and early Gen-Z strongly agree that concern over quality of life in future due to the present climatic conditions and resource depletion is channelizing their investments in the ESG platforms

Climate changes and Quality of life are the strongest driving forces for ESG Investments

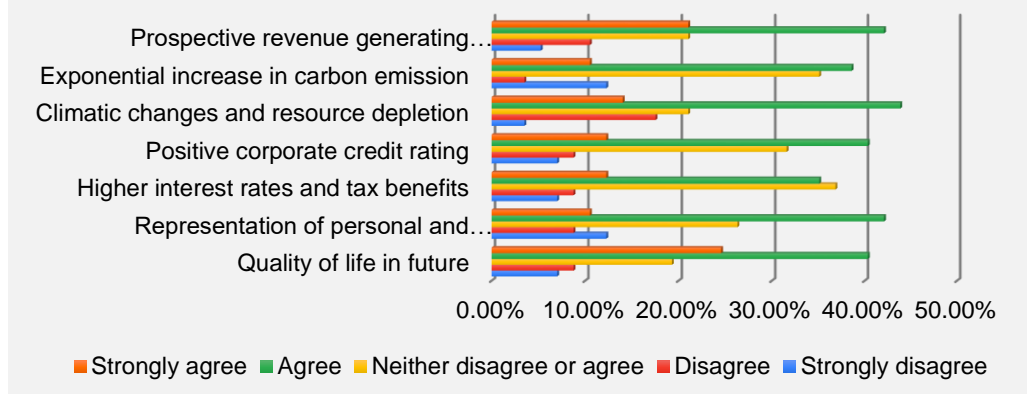


Figure 1 Factors influencing ESG investment

VII. CONCLUSION

India has the largest millennials and Gen-z population in the world giving it an upper hand in terms of technologically advanced human resource assets who are capable of building an enticeful market within the country but it's saddened to know that most of them are not well informed about the growing existence of the financial industry. Warren Buffett once said *"Today people who hold cash equivalents feel comfortable. They shouldn't. They have opted for a terrible long-term asset, one that pays virtually nothing and is certain to depreciate in value"*.

It's of paramount importance that the younger generation take risk and start investing for their present as well as for their upcoming future at a less depreciable and more valuable rate. Understanding the financial investments and its variant segments are quintessential for individuals and for the financial investors for 3 utmost reasons, it brings a good source of passive income, makes them financially sound to take investing decisions and ultimately reduce dependency on third party and most importantly gives them profound knowledge of the market happenings which greatly structure their long term financial, personal and social decisions.

Even though target investors in India would like to keep a portion of their portfolio contributing to the environment and social well-being, but most of them don't have an acceptable degree of

knowledge of the ESG market. Not only investors but organizations didn't even know "what the acronym of ESG stood for", as per Burton Flynn and Ivan Nechunaev at Terra Nova capital. It's a circle of initiatives towards a better environment and a better working and living world taken by three groups, one is the investors and the others are national and international regulating bodies and companies and organizations.

Millennials and early Gen-Z groups are the target investors in the ESG model certainly, because they understand the need of a green future, equitable rights, resource value and of course the kind of dynamic dark future they'll be in after a few decades if they don't step forward and do something in the present. It's completely impractical to expect all of them to bring new technologies and new ideas of less carbon emission, sustainably decomposing of waste materials, etc. but what they can do is promote their idea of a better breathable world by investing in those who are making this change successful and as rational consumers/ investors they will get profitable returns in the coming future.

ESG investment has truly gained the attention in the past few years though the rate at which it's moving is quite low in India but it still stands a chance of becoming a part of ESG dedicated economies if it's channeled and modelled in the correct and interactive direction that not only broadens investors' outlook but also smoothens the

path of identifying the ESG dedicated platforms and companies.

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