

Addendum to Pre-registration Financial professionals and sustainability preferences
(AEARCTR-0006026)

Abstract: We will run a follow-up study after the completion of the RCT pre-registered in June 2020. The experimental design is close to the original design with some minor changes, which we describe in this document. The study's main purpose remains unchanged, we are examining whether financial advisors exploit preference for socially responsible investments, in order to strategically charge fees. We recruit samples of financial professionals (FPs) and clients. Changes to the original design are underlined.

Adjustments to the original experimental design: As the original study, our experimental design consists of two stages. In the first stage, we will ask FPs to give investment advice to real clients that we randomly assign to them. Clients give an investment mandate, which is either a socially responsible (sustainable) or a conventional investment mandate. To satisfy the client's social responsibility preferences, FPs have the opportunity to buy social responsibility scores when selecting a stock portfolio. To see the social responsibility scores, FPs will need to pay 0.25% of the starting portfolio value per client. In addition to the client characteristics provided in the original study, we will provide information on clients' financial literacy. FPs see these characteristics, together with clients' risk preferences and information on demographics.

FPs select one out of a choice set of six portfolios of stocks on behalf of the clients (this is a minor change to the original design, in which FPs then created portfolios by adjusting the weights of single stocks). FPs then set an advisory fee that they would charge in case an assigned client wants to take the advice. In the second stage, clients are endowed with an investment budget of \$1,000. The portfolio that the FP selected will be shown to the client. The client will also see the fee that the FP set and the social responsibility information, if that is bought.

Introduction of competition: The client then has two options:

1. Take the FP's advice: The client will pay the advisory fee to the FP and the client's investment budget will be invested in the stock portfolio that the FP selected.
2. To consult another FP: The client may also decide to see a competing FP's advice and fee.

We will vary the degree of competition between FPs. That is, we will vary the effort that clients have to put in to see the offer of a competing financial advisor. Specifically, clients will need to solve slider tasks. Only when a client finishes these sliders, they get to see the offer from another FP. In the LOW_COMP treatment, clients have to solve a large number of slider tasks, in the HIGH_COMP treatment, clients have to solve a small number of slider tasks. We make this very explicit to participating FPs. If clients decide to put in the effort to reveal the offer of a competing FP, they can decide whether to take the original FP's advice and to pay the original FP's advisory fee to you, or to take the other FP's advice and to pay the other FP's advisory fee.

The selected investment will be relevant for the payment of every 10th client (randomly selected). The performance of the clients' investments are tracked over the following twelve months and are paid based on the return. For each selected client, \$1,000 worth of stocks will be purchased in real life according to the selection made by the participant.

Intervention(s)

We employ a within-subject design. All FPs select stocks and set fees for clients that differ along several dimensions, including financial literacy and sustainability preferences.

We additionally apply a between-subject component. We vary between FPs, whether they will be in a HIGH_COMP or a LOW_COMP treatment.

Primary Outcomes (end points)

The fees that FPs charge to different clients.

Primary Outcomes (explanation)

We expect fees to be higher for clients with sustainability preferences. We expect this difference to persist when introducing competition.

Secondary Outcomes (end points)

Content of advised portfolios; fee differences by financial literacy; bought information; differences by continent of residence

Secondary Outcomes (explanation)

- **Content:** We will check whether there is a systematic difference in content of the portfolios that can be related to clients' characteristics. For example: Do portfolios of clients who gave a social responsibility mandate have higher portfolio-level social responsibility scores?
- **Fee differences by financial literacy:** We will test whether FPs overcharge clients that score low in financial literacy. This will help us in evaluating whether a mechanism for overcharging socially responsible clients is advisors taking the mandate as a proxy for low financial literacy.
- **Bought information:** We will test under what conditions FPs purchase social responsibility scores on behalf of clients. We will also test whether FPs pass these costs on to clients when setting advisory fees.
- **Differences by continent of residence:** Despite Americans, we will also sample European FPs in this study. We will test whether overcharging behavior differs by continent of residence.

Randomization Method

FPs are randomized to be either in the HIGH_COMP or the LOW_COMP treatment.