

ESTUDIO SOBRE FINANZAS VERDES EN ESPAÑA_Inglés

ASUFIN |
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Proyecto: Finanzas Verdes, Economía Circular y Descarbonización tras el COVID-19



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Introduction

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Introducción

The financial sector is an essential element in the sustainable development of our planet as it serves as an intermediary between consumers, companies and institutions. This is all the more so because this intermediation focuses on two fundamental aspects: financing and investment.

One of society's most important goals is to reduce emissions into the atmosphere, a goal in which consumers can participate in two main ways: reducing their energy consumption at home and using more environmentally friendly means of transport.

Therefore, adequate financing when buying or renovating a more energy-efficient home, as well as purchasing zero or low-emission vehicles, is essential. Our homes and vehicles therefore require a higher volume of investment and, although this offers a significant reduction in costs in the long term, initial outgoings are higher than other options on the market, dissuading consumers.

Antonio Luis Gallardo has prepared this study on green finance, analysing the offers of this type of product available on the Spanish market, together with the general perception of citizens, whom are still not very familiar with them.



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In this study, you
Will discover that

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In this study, you will discover that:

1. Almost half of the population would consider investing in an electric car or sustainable housing to receive tax deductions.
2. The Spanish market has a limited supply of "green mortgages", which in most cases offer worse economic conditions than conventional mortgages.
3. However, personal loans available for the purchase of electric or hybrid vehicles on competitive terms when compared to other financing.
4. Only 1 in 10 people would be willing to make a "green investment", even if the costs were higher than a traditional investment. Furthermore, only 25% of the population believe it is important that an investment is sustainable.
5. Although the automotive sector offers subsidies and deductions when purchasing low-emission vehicles, in the field of housing, only very occasional deductions are offered in certain regions of Spain.



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Approach

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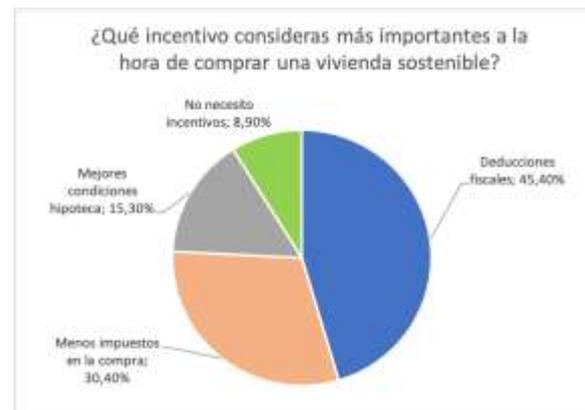
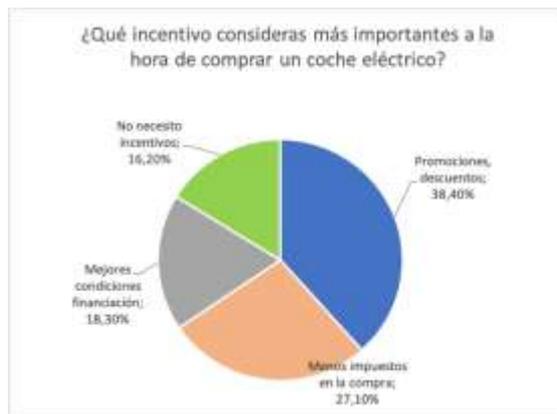
Approach

- What makes us invest in sustainable consumer goods?
- Why take out green financing?
- What are the requirements of "green mortgages"?
- And what are the conditions of consumer loans?
- What is the status of sustainable investment products?
- Why do we choose sustainable investment products?
- How does taxation affect "green investment"?

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What makes us invest in sustainable consumer goods?

We have analysed the main incentives that Spanish consumers look for when it comes to buying an electric car or a sustainable home.



The results are very clear, although it is true that in the current circumstances, short term costs are more important than potential future savings. Therefore, only 8.90% of people investing in a sustainable home do not look for some kind of external incentive, in the belief that the savings and/or benefits entailed are sufficient. In terms of electric vehicles, where fuel savings can be perceived in the short term, this percentage rises to 16.2%.

What the results show is that they attach importance to the involvement of the administrations and financial institutions when acquiring these two types of products.

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Why take out green financing?

In the case of mortgages, 45.4% are appraised positively, in essence because they offer tax deductions. This is followed by the payment of less tax on the purchase, mentioned by 30.4% of respondents, and then better financing conditions, as indicated by 15.3% of those surveyed by ASUFIN.

In the case of electric vehicles, promotions and discounts are the most important factor for almost four out of every ten people (38.1%), followed by less tax on purchases, mentioned by 27.10% of respondents, and better financing conditions, 18.30%, in total 5% higher than is the case for housing.

Therefore, although financing is not the most important incentive, it does occupy a relevant position, and yet, this is not in line with the relatively scarce supply offered by financial institutions.

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What are the requirements of "green mortgages"?

In the case of green mortgages, their affiliation or main access requirement tends to be based around energy efficiency. The launch of the housing energy efficiency certificate, regulated under Royal Decree 235/2013 of 5 April, and that must be handed over before any sale of a house can go ahead allows the financial institution's risk department to easily assess this aspect as it is included into the mortgage application dossier.

Even so, as indicated above, market supply is scarce, it does not offer significant bonuses (in some cases these mortgages are even more expensive than other "non-green" alternatives) and most importantly, this overlooks other conditions that could lead to a green mortgage being granted, such as architectural design, materials, need for artificial lighting, cost of water or on rural homes having their own water treatment system.

The availability of green loans for housing refurbishments is also scarce. One exception is the Triodos Mortgage, which offers anyone refurbishing their home and improving its energy rating, once the fixed rate period of their mortgage (the first 18 months) have elapsed, the option of reducing the interest rate for the remainder of the period by simply presenting the new energy certificate.

Bank	Product	Discounts
Triodos Bank	Triodos variable mortgage	Spread associated with the energy certificate, the lowest Euribor + 1.05% for type A and the highest Euribor + 1.29% for type G
Bankia	Variable Mortgage	-0.25% in the spread
Banco Santander	Variable Mortgage	-0.10% in the spread
Cajamar	Variable mortgage	-0.05% in the spread

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And what are the conditions of consumer loans?

In the case of consumer loans, there are similarities and differences with green mortgages.

In terms of similarities, we could again once again mention the scarcity of products available on the market; however, the main difference is that in most cases, more competitive prices are available than the average rates for consumer loans, and as many focus on financing electric cars and refurbishments, the maximum amounts (and terms) are relatively high, with amounts of up to 75,000 euros.

Bank	Product	What it finances	Maximum amount	Maximum term	APR interest rate
Bankia	Sustainable loan	Purchase of a hybrid or electric vehicle. Class A domestic appliances. Refurbishment that improves the home's energy efficiency rating.	€60,000	96 months	4.85%
BBVA	Ecological car loan	Hybrid and electric car	€75,000	96 months	5.21%
Kutxabank	Green loan	Refurbishment that improves the home's energy efficiency rating. Electric car.	€75,000	120 months	5.77%
Unicaja	Motor Eco Verde Loan	Hybrid or electric vehicle	€60,000	96 months	6.01%
Average interest rate of loans over five years: 6.82%					
Cetelem Bank	EcoAuto Loan	Hybrid or electric vehicle	€60,000	96 months	7.18%

The options currently available, aside from being of limited relevance, focus in particular on electric vehicles, with financing for domestic appliances or refurbishments less significant. This converts "green personal loans" into exclusive products, considering the current price of these vehicles, thus meaning they target medium to high incomes.

In short, the market is currently fledging; however, sustainable pillars of financing are established, expanding the objects for which financing is offered and improving the conditions available.

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What is the status of sustainable investment products?

Whereas one of the biggest handicaps when it comes to choosing financing is the limited availability, this is not the case with investments. According to a study by Swiss management firm Vontobel Asset Management, 29% of the funds investments in Spain are allocated to environmental, social and corporate governance criteria. The study on "Sustainable and Responsible Investment in Spain 2020" by SpainSIF calculates that these investments came to just under 285.5 million euros in 2019, up by 36% year-on-year.

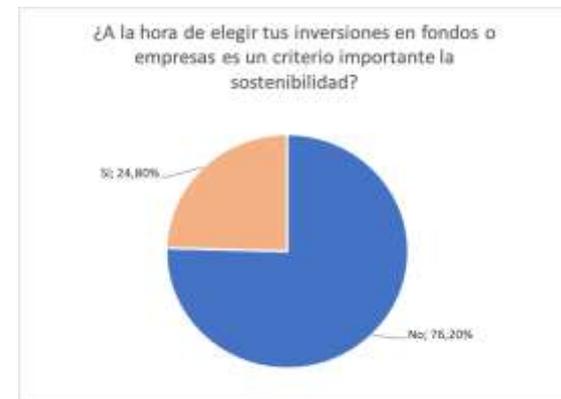
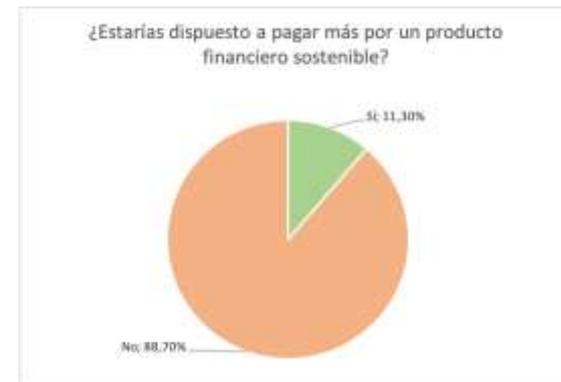
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Why do we choose sustainable investment products?

The factors affecting our decision to make a "green investment" vary widely. Firstly, risk aversion, as in most cases these investments involve equity investment funds. But the second to this, is the refusal to assume additional costs.

Therefore, when asked, without considering the risk of the investment, whether they would be willing to pay a little more for a sustainable product, only 11.3% of respondents said they would be willing to assume the extra cost.

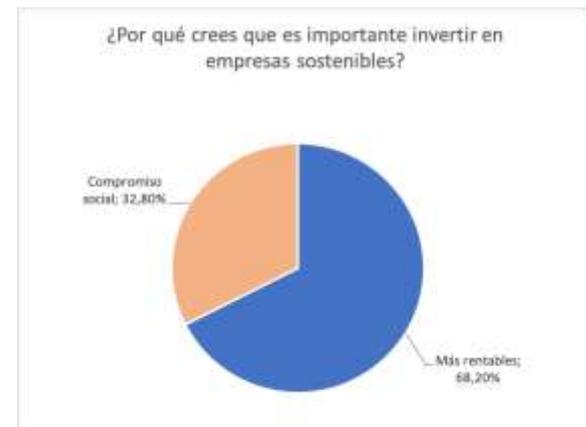
Returns are the main reason for investing in green products, with only one in four investors (24.8%) considering sustainability as an important factor.



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Why do we choose sustainable investment products?

Therefore, only 32.8% said that they invest in sustainable companies on account of their social commitment, while 68.2% do so because they consider them more profitable.



In recent years, the enforcement of progressively more requirements, both at a national and international level, has seen major companies rolling out "green policies". Not only that, the ratings issued by rating companies take these commitments into account, as they are closely related to reducing risk. This means that these companies dominate many investment portfolios and offer a small potential for higher returns than companies that make no such commitment.

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How does taxation affect "green investment"?

As we have already seen, tax benefits, both at the time of purchase and thanks to the subsequent deductions available, are one of the main reasons for choosing more sustainable homes or electric vehicles.

In this sense, two completely different policy lines are taken by the administrations. On the one hand, a firm commitment to subsidising the purchase of environmentally-friendly vehicles, but very limited assistance when it comes to sustainable housing.

In the automotive sector

There are currently two lines of subsidies available, which are incompatible with one other, meaning the consumer must choose one or the other.

- ✓ The 2020 edition of Plan Renove is aimed at vehicles with an A or B energy rating (the 45% most efficient vehicles on the market) which must also be approved in terms of CO₂ emissions below 120 g/km, or must be vehicles that use alternative energy, such as hybrids, gas or electric. This plan sets an upper price limit for cars of 35,000 euros, rising to 45,000 euros for people with reduced mobility. It is a prerequisite that the buyer's old vehicle must be scrapped.
- ✓ The subsidy is variable and ranges from 400 euros for category B vehicles to 4,000 euros for zero emissions vehicles. On top of this amount is the sum contributed by the dealer: 1.000 euros for zero emissions vehicles and an identical amount subsidised by the government for ECO and C-Label vehicles, in addition to a further 500 euros if any of the following requirements are met: when scrapping a vehicle that is over 20 years old, when the buyer is part of a Spanish Large Family or when monthly household income is less than 1,500 euros.
- ✓ Plan Moves II, aimed only at electric, plug-in hybrid and gas vehicles. The subsidy available differs depending on the buyer, the technology chosen and the self-sufficiency, although tops off at 6,500 euros.

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How does taxation affect "green investment"?

In the housing sector

Following the exclusion of deductions for the purchase of a habitual residence 8 years ago, deductions in this field are few and far between, and in the case of sustainable homes even more so.

On the one hand, subsidies included in the 2018-2021 Housing Plan, covering the refurbishment of regular housing structured around energy efficiency (also to make housing more accessible), are very limited, with no plan in place to substitute it when it ends within a year's time. The main problem with these subsidies is that they only apply during the year in which the investment is made and ceilings are set (varying between the different regions in Spain), meaning that the real tax benefit is very low in relation to the total investment made.

For example, in Galicia, up to 15% of the total amounts invested can be deducted, subject to a maximum limit of 9,000 euros per taxpayer. The requirement is that the property's energy efficiency must be improved, moving up to a higher rating.

In the Canary Islands, 10% of the amounts spent on energy refurbishment work on the taxpayer's usual residence can be deducted, up to a maximum of 7,000 euros per taxpayer.



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Conclusions

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Conclusions

Compliance with the environmental and sustainable development objectives set for 2030 is a major undertaking and one that we must all be aware of. In Spain, there is a clear shortage of financial products that can be considered "green", especially in terms of financing, but also when it comes to investment, combined with a lack of public initiative. The lack of tax deductions, which we must not forget is one of the main incentives for the general public, is a major burden when it comes to improving the sustainability of housing.

All this means that consumers are not very aware and see no point in spending more money on what is known as "Green Finance".

At ASUFIN, we feel obliged to draw attention to this fact, in addition to the lack of solutions in the short term; public administrations must be the catalysts for making green investments profitable and attractive. However, this could also be the perfect opportunity for financial institutions should they decide to choose to offer this type of product, opening up a niche in the market. It is essential that the conditions offered are competitive and encourage the public to buy a more sustainable home, or to refurbish their own home in such a way that the emissions it produces are compatible with the prevention of climate change, which is a global target that we must all pursue together.

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