SwissBanking

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Sustainable Finance

SBA position paper

Sustainable finance

For the Swiss financial centre, a sustainable financial system represents both a chance and a business opportunity. With its diverse range of stakeholders and technical expertise, the Swiss financial system already plays a leading role in the area of sustainable finance.

Position of the Swiss Bankers Association

- Sustainable finance is a key segment for the Swiss financial sector and sustainability is becoming increasingly important to investors. The share of ESG investments in Switzerland is high in international comparison (ESG: environmental, social and governance).
- Sustainable finance is being actively pursued by many institutions. In order to make further progress in this area, focus must be placed not only on financial intermediaries such as banks and insurers, but also on investors and the investment universe. Only through the interplay of all actors (investors, intermediaries, investment landscape) can financial flows become more sustainable.
- The Swiss financial centre has the potential to become a leading global hub for sustainable finance. It will succeed in achieving this if the following points are pursued consistently:
- **Guidelines for financial intermediaries:** the industry is currently developing recommendations on how ESG criteria can be incorporated into products, services and the advisory process.
- **Ensuring an attractive investment universe:** the current competitive disadvantages when issuing and creating sustainable financial products must be removed. By abolishing stamp duty and amending the withholding tax, the framework conditions can be improved, particularly also for sustainable products.
- **Improving exportability:** Switzerland can only contribute to steering financial flows long-term if Swiss ESG products and expertise in this area can be exported and marketed internationally This requires a systematic improvement of market access for Swiss financial services.
- **Improving the framework conditions for institutional investors (BVV2):** focusing on the prudent investor rule and taking ESG criteria into account ensure that pension funds sustainably invest the pension assets entrusted to them for the benefit of their intended recipients from the very first Swiss franc onwards.
- **Internationally coordinated approach:** Switzerland must take international developments into account. Both in terms of the issues and the dynamics at hand, going it alone and focusing solely on individual matters is the wrong approach.

Actively taking advantage of opportunities

We understand sustainable finance to be every type of financial service which integrates environmental, social and governance (ESG) criteria into business or investment decisions for the sustainable benefit of customers and society[1].

Accounting for around 20% of investments, the penetration of financial products with an ESG approach in Switzerland is above the global average of approx. 11%.[2] Measures implemented by the industry and the government are to support this positive trend through the establishment of attractive framework conditions.

With the help of industry initiatives, the Swiss Bankers Association wants to raise awareness for the opportunities that sustainable finance provides and in doing so, achieve long-term improvements. This is the industry's response to the demand for more sustainability. The SBA is currently developing industry recommendations as to how ESG criteria can be incorporated into products, services and the advisory process.

Where do the banks come in?

Unlike many other financial centres, the Swiss financial centre is characterised by a broad-based **wealth management industry**. This is both an export business and an intermediary business. The financial intermediary allocates assets globally according to the specifications and values of the investor. Sustainable asset allocation is achieved through the interplay of the investor, the financial intermediary and the investment universe. Measures aimed only at financial intermediaries which do not take into account investors or the investment landscape will fall short of their goal and will not have the desired effect.

A similar trend can be seen in the **lending business**. Many banks are already playing an active role in this area, for instance by offering customers incentives for sustainable investment activities. The focus here is on the one hand on robust processes for dealing with sustainability risks. On the other hand, the banks that offer lending services also pursue business opportunities which have direct positive sustainability effects. This results in a continuous rise in demand for funding for projects or companies in the area of sustainable and climate-resilient infrastructure, not least in connection with the implementation of the UN development goals (Sustainable Development Goals) and those of the Paris Climate Agreement. A study by WWF Switzerland shows that the 15 leading institutions already consider sustainability aspects in their day-to-day business and in how they manage their company. There are, however, differences with regards to the extent and the level of sustainability achieved, meaning there is still potential for improvement.

Sustainability is also important in respect of **risk aspects**. Most banks today have risk guidelines which prevent them from financing certain sectors and projects with a particularly negative

[1] Definition according to Swiss Sustainable Finance (SSF) – http://www.sustainablefinance.ch.
[2] Based on reports by Swiss Sustainable Finance (SSF), McKinsey and the SBA.

footprint. In addition, certain banks already take ESG criteria into consideration when assessing risk factors.

Yes to better framework conditions, no to one-sided regulations
The financial sector is committed to ensuring optimal framework conditions and liberal solutions. At the same time, however, the sector opposes regulations which would require it to meet goals which it cannot achieve alone. The sector is open to targeted and effective measures, but these must be achievable and take into account the factors outlined. The primary goal must be rapid, expedient and targeted measures supported by all stakeholders, which effectively contribute to achieving the goal of sustainability.

Instead of statutory provisions, the framework conditions should be improved. In this connection, it is important, also in the interests of smart regulation, to re-examine the existing framework conditions. Here the emphasis should be on the following areas:

- **Ensuring an attractive investment landscape:** the competitive disadvantages in place to date for the issue and creation of sustainable financial products must be removed. The abolition of stamp duty, not only, but particularly, on sustainable finance products and the amendment of withholding tax will create a market in which sustainable investing is encouraged.
- **Improving exportability:** Switzerland will only be able to make a multi-layered contribution to steering financial flows long-term if it can export and market its existing expertise and the corresponding products. Market access for financial services must be systematically improved to this end.
- **Improving the framework conditions for institutional investors (BVV2):** focusing on the prudent investor rule and taking ESG criteria into account ensures that pension funds sustainably invest the pension assets entrusted to them for the benefit of their intended recipients from the very first Swiss franc onwards.

Coordination with the international itinerary – avoiding incompatibilities
The Swiss Bankers Association supports the Paris Agreement (Paris Climate Protection Agreement), which Switzerland ratified in 2015. Moreover, the SBA is convinced that the Swiss financial centre can and should take a leading role in the area of sustainable financial flows. However, it makes no sense for Switzerland to go it alone.

The EU Action Plan is progressing rapidly and will also set the direction for Switzerland and particularly for the Swiss financial sector. Climate protection is a central part of the EU Action Plan, but it is broader in scope and it pursues an ESG approach – based upon the United Nation's 17 Sustainable Development Goals. Switzerland should contribute its expertise to the international efforts being undertaken and advocate for a liberal, demand-driven implementation.

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