

> Proposals for a Roadmap towards a Sustainable Financial System in Switzerland

*A collaboration of experts of the financial sector, academia,
non-governmental organizations and federal authorities*

An invitation to discussion and action

Executive Summary



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> Foreword FOEN

Back in 2014, the Federal Office for the Environment (FOEN) started a dialogue with the financial sector, academic institutions, non-governmental organisations and public authorities on the topic of sustainability in finance. This dialogue was initiated to contribute to the Inquiry into the Design of a Sustainable Financial System of the United Nations Environment Programme (UNEP). The Inquiry aimed to define the financial sector's role in meeting the needs of the real economy in its transition to a green and inclusive economy. Switzerland, with its contribution to the global report entitled "The Financial System We Need" (2015), played an important and much appreciated role at the international level.

At the national level, FOEN's initiative and commitment together with its partner departments, especially the State Secretariat for International Financial Matters (SIF) and State Secretariat for Economic Affairs (SECO), has also been very well received by the financial sector. With sustainability gaining in importance, FOEN has started to be a valuable facilitator of the discussion on how to integrate environmental factors in the businesses of banking, asset and wealth management, and insurance. The importance of including the concept of environmental sustainability in financial market policy was signalled by the Swiss government in February 2016.

At the global level, the world community has reached key achievements: the 2030 Agenda, with, at its core, the international consensus on the Sustainable Development Goals (SDG); the Addis Ababa Action Agenda to finance the pathway towards sustainability and the historic, universal Paris Agreement, where the international community has agreed, among other commitments, to make financial flows consistent with a low-carbon and climate-resilient pathway. And now, the potential impact of climate change and environmental aspects on the stability of the financial system are being discussed in international bodies such as the G20. Environmental sustainability has reached – for the first time in history – the top of the international finance agenda. These strong and historic international signals pave the way for the world community to act now. Action is much needed as future economic growth depends on natural capital and well-functioning ecosystem services.

This report is a tangible result of the common effort by experts from the financial sector, science, non-governmental organisations and federal authorities. Its purpose is to propose highly significant measures for rendering the Swiss financial system more sustainable – that is, a Swiss financial system that supports the transition to a green and inclusive economy.

However, while discussing promising measures is necessary, it is not enough to seize the important window of opportunity we are witnessing at this moment. Action is needed now. With its strong environmental track record on sustainability and its strong financial sector of global relevance, Switzerland has an important role to play. And a huge chance to grasp the many business opportunities that lie in the transition to a resource-efficient and inclusive economy.

My sincere thanks go to the Swiss Team members who made this publication possible. May it inspire further collaboration and – of capital importance – action!

Karine Siegwart

Vice Director of the Federal Office for the Environment

> Foreword Swiss Sustainable Finance

Swiss Sustainable Finance was launched in July 2014 with the vision of making Switzerland a leading centre in sustainable finance. Shortly after that, the Federal Office for the Environment stirred a national dialogue on sustainable finance by grouping relevant stakeholders in the Swiss Team for Input to the UNEP Inquiry project. The Swiss Team Answer presented in May 2015 at the Symposium “Swiss Finance in a changing world” came up with recommendations in three areas:

- > Public actions and framework conditions
- > Private action, self-regulation and incentives
- > Valuing true costs

Now, one year later, the Swiss Team presents its tangible Proposals for a Roadmap towards a Sustainable Financial System in Switzerland. Swiss Sustainable Finance is proud to unite members who are at the forefront of creating innovative financial solutions for a sustainable world. Its recent report “Swiss Investments for a Better World” illustrates prominent examples of such products helping to finance the international Sustainable Development Goals while offering market returns. Yet, to better anchor sustainability principles in the mainstream of the Swiss financial centre, further action is required.

Meanwhile, globally a wide array of different initiatives in sustainable finance have been pursued lately: Besides the UNEP Inquiry project, an impressive amount of initiatives addressing challenges in the global financial system have been launched. The Financial Stability Board has created an industry-led task force developing voluntary, consistent climate-related financial disclosures. China has established a Green Finance Study Group during its G20 presidency. And many countries (such as France or Brazil) have adapted national frameworks to better anchor sustainability principles in their financial systems.

In Switzerland, the dialogue within the Swiss Team, a majority of which are members of Swiss Sustainable Finance, has resulted in a broad array of suggested action points directed at different players in the Swiss financial centre. Some of the suggested measures, such as the increased transparency on the sustainability level of portfolios, are already practice at some innovative Swiss firms. A broader adoption of such approaches by mainstream players could increase the effect of guiding capital into more sustainable companies. Others, such as systematic training on sustainable finance both in vocational and professional training, ask for cooperation of different players such as industry associations, private sector players and national or cantonal education facilities. Swiss

Sustainable Finance will use its broad network to foster the implementation of the different measures.

With its important role as a global centre for wealth management, Switzerland has the opportunity to contribute its share to making financial systems around the world more sustainable. We are convinced that implementing the action points outlined in this report not only contributes to a more sustainable world but also offers financial benefits, be it through reduced risk, new investment opportunities or the development of new business prospects. It is time for the different players to seize them.

Jean-Daniel Gerber

President Swiss Sustainable Finance

> Proposals in a nutshell

Proposals to spark the discussion on a sustainable financial system

In this report, a group of experts from the financial sector, NGOs, academia and government authorities in Switzerland identifies the most important concrete measures for creating a (more) sustainable financial system in Switzerland. The experts believe that now is the perfect time to debate the measures and to take action and move beyond business as usual.

Planet under pressure – the need to act now

Currently, societies' production and consumption patterns by far exceed planetary boundaries. To lay the basis for a balanced growth, the real economy needs to transform into a green and inclusive economy, and the financial sector needs to enable and accelerate this transition. Maintaining business as usual will increase the challenges and costs of inaction for our society.

Financing the future – a historical challenge

Financing a sustainable economy requires the financial system to finance the transition towards sustainability and refrain from financing harmful activities. Clean energy, resource-efficient infrastructure and nature conservation are just some examples of investment fields for a sustainable economy. Trillions of dollars of investments are needed – just financing the Sustainable Development Goals will require 5–7 trillion USD per year over the next 15 years. It is obvious that public money will not be enough and private financial flows will have to contribute substantially to financing the future we need (UNCTAD 2014).

Worldwide momentum towards more sustainable financial systems

The urge to act and the resulting opportunities have created a strong momentum in financial systems worldwide and also in Switzerland (UNEP 2015). Initiatives like the Paris Agreement of 2015 (UNFCCC 2015) set important framework conditions and send signals to the real economy and financial systems.

A sustainable financial system in Switzerland – a business opportunity of our time

A financial system is considered sustainable if it financially enables and accelerates the transition of the economy and society towards sustainability. Many financial systems worldwide take advantage of business opportunities associated with the current momentum towards sustainability, and benefit from collaborative initiatives and state support. The financial system in Switzerland with its pioneers and technical expertise in the field of sustainable finance can play a prominent role to exploit these opportunities.

Achieving sustainability through ESG Integration

To become more sustainable and exploit associated business opportunities, financial actors need to systematically integrate sustainability factors into financing and investment decisions. Examples of relevant sustainability factors, so-called ESG (environmental, social and governance) factors, are climate change, water usage, child labour, the effectiveness of management structures to ensure good corporate governance, etc.

Aiming for a positive impact

ESG integration can be used to implement different sustainability strategies. ESG opportunities can be seized and ESG risks can be managed as a means to increase shareholder value. This results in only a basic improvement of sustainability impact. ESG integration can also be used to manage the triple bottom line, i.e. to create environmental and social value, alongside shareholder value. Here sustainability impact improvement is higher. Nevertheless, a significant impact improvement can be achieved by going further: using ESG integration as a means to generate a true positive impact for a green and inclusive economy. Here, the burning issues of our time are translated into business opportunities that make business sense.

Let's get real – the crucial levers to seize the challenge

The measures identified in this report are aimed at giving the financial system in Switzerland a more sustainable focus based on seven levers. Some of them aim to strengthen and ripen the markets for sustainable investments and finance to allow for the mainstreaming of ESG integration: research and development, education and awareness, standards, assessments, and transparency. Other levers build on existing market capacities and directly focus on integrating ESG factors into investment and financing decisions, and on serving ESG-related client preferences.



ESG research & development

ESG research and development measures improve the tools to get going



ESG education & awareness

ESG education and awareness measures strengthen the capacity for supply and demand



ESG standards

ESG standard measures build up trust and facilitate the first steps



ESG assessments

ESG assessment measures shed light on financing and investment decisions



ESG transparency

ESG transparency measures set incentives towards improving sustainability impact and allow discussion about it



ESG integration

ESG integration measures proactively create win-win solutions



ESG preferences

ESG preference measures make it possible to know and serve customers better

20 measures to move forward

The measures targeting these levers are concretised for five core areas: four main areas of the financial system – asset and wealth management, institutional investors, credit business and capital markets – as well as research and education. These areas are highly significant for the transformation of the financial system, due to the volume of financial flows managed

or influenced, and/or due to their impact in terms of scopes of action and positive spill-overs on the entire financial and economic system. The following table provides an overview of the proposed measures, specified according to the stakeholders affected and the targeted levers.

Proposed measures	Stakeholder	Affected levers
Asset and Wealth Management		
Educate and raise awareness among portfolio managers and relationship managers.	Universities, professional schools, in-house education, consulting and sustainability rating providers, supported e.g. by industry associations and the state; target audience: portfolio managers and client relationship managers	 
Provide transparency on the ESG impacts, risks and opportunities of financial products for investors.	Asset and wealth management as well as invested companies, supported e.g. by industry associations such as Swiss Sustainable Finance (SSF); target audience: clients and other stakeholders	 
Complete empirical research on the financial effects of ESG factors, develop methods and key performance indicators (KPIs); define assessment standards; investigate on potential regulatory barriers.	Universities, other research institutions, supported e.g. by industry associations and asset and wealth management; target audience: portfolio and client relationship managers	 
Systematically assess and integrate ESG factors into investment processes.	Asset and wealth managers, supported by sell-side ESG research providers, and industry associations	 

Proposed measures	Stakeholder	Affected levers
Institutional Investors		
Develop and set standards for key sustainability issues in sustainable investments, complete empirical research on the financial effects of ESG factors, develop methods and key performance indicators (KPIs).	Universities, other research institutions, rating and consulting organisations, together with institutional investors, supported by industry associations; target audience: institutional investors	 
Educate and raise awareness among institutional investors and beneficiaries.	In-house training departments, universities, specialised schools, consulting and sustainability rating providers, supported by industry associations and possibly the state; target audience: institutional investors (especially foundation/ management board and investment committee members, asset managers, client advisors) and beneficiaries	 
Provide transparency on ESG-related investment policies, goals, and portfolio impacts; set standards concerning the ESG transparency of portfolio impacts.	Policies and goals: board members, supported by in-house ESG experts, product managers, external consultants; assessments: asset managers, in-house financial and ESG analysts, auditing agencies, possibly supported by external service providers (consulting or sustainability rating providers), NGOs, client organisations; target audience: beneficiaries and other stakeholders	  
Integrate ESG impacts into policies and related asset management goals, systematically evaluate and meet the ESG preferences of beneficiaries.	Policies and goals: board members (especially foundation boards), supported by in-house ESG experts, product managers, external consultants; ESG integration: asset managers; target audience: client advisors, supported by in-house ESG experts, possibly external service providers	 
Credit Business		
Raise awareness among banks about blended finance instruments.	Financial industry associations and / or governmental bodies	
Systematically assess ESG factors and integrate them into banks' risk management processes.	ESG risk responsible specialists and risk managers at credit institutions	 
Systematically assess ESG factors and integrate them into the credit ratings of banks and rating agencies.	Credit rating agencies and banks, especially developers of bank-internal rating models; possibly supported by specialised sustainability rating agencies	 
Engage in research on the integration of ESG factors into credit ratings.	Universities, other research institutions, rating and consulting organisations, together with credit institutions; target audience: credit institutions	
Capital Markets		
Further develop ESG assessment methods, systematically assess ESG factors and integrate them into securities ratings.	Rating agencies, banks and other financial actors, possibly supported by specialised sustainability rating agencies	  
Provide transparency by integrating ESG and financial reporting into reporting standards.	Standard-setting bodies, industry associations, companies (in general, exchanging experiences with their sector peers); target audience: investment managers, supported by industry initiatives, possibly Fin-tech companies	 
Systematically assess ESG factors in investment analyses, systematically integrate ESG factors into issued investment recommendations.	Brokers, research houses, investment banks that provide buy, sell or hold ratings, supported by rating agencies	 

Proposed measures	Stakeholder	Affected levers
Research and Education		
Strengthen academic research on sustainable finance by improving the funding situation for PhD students in this field.	Universities, possibly funded by financial institutions and the state; target audience: PhD students	
Strengthen academic research on sustainable finance by increasing the visibility and awarding research in this field.	Universities, supported by the government and financial institutions; target audience: researchers	
Strengthen academic education on sustainable finance by creating new joint/ interdisciplinary master study programs with a "sustainability" dimension.	Universities, supported by the state, especially cantons; Target audience: students specialising on sustainable finance	
Strengthen academic education on sustainable finance by implementing sustainable ECTS credits in academic programs.	Universities; target audience: students studying economics, management and finance	
Strengthen professional education on sustainable finance by integrating sustainability into professional school training programs for commercial employees.	Schools offering formation for (future) commercial employees, the Swiss Conference of Cantonal Ministers of Education, the confederation and professional associations; target audience: (future) commercial employees	 

Let's walk the talk

The identified measures reflect expert opinions, many of which are based on existing best practice. They address financial, scientific and other stakeholders from the real economy, civil society, the general public, and the state. This report aims to stir a discussion with these groups on how to best address and implement the measures, and to encourage their implementation. The discourse should be on the future of the financial system in Switzerland and how it can become more sustainable. The identified measures serve as a basis that is to be challenged, further concretised and complemented by further approaches yet to be developed.

Switzerland, with its advanced financial sector, its pioneers and technical expertise in the field of sustainable finance, is in a unique position to accelerate the transition to a more sustainable financial system. The path forward leads to far-reaching opportunities as well as considerable challenges that must be addressed. The discussion on this path has at least been started within the Swiss Team as part of the process of developing these proposals into a roadmap. This process has to be continued but, more importantly, now needs to result in transformative action. Collaborative approaches are required and all relevant stakeholders need be involved in order to spread the ideas across the entire financial system in Switzerland. This will strengthen its competitiveness and benefit society at large.