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Sustainable Finance in Switzerland: Where Do We Stand?

Annette Krauss, University of Zurich
Philipp Krüger, Swiss Finance Institute and University of Geneva
Julia Meyer, University of Zurich

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The SFI Knowledge Center publishes White Papers that give new stimulus to relevant topics, raise knowledge standards, and contribute to ongoing discussions or initiate debate on matters of particular relevance to the Swiss financial services industry.

Sustainable Finance in Switzerland: Where Do We Stand?

Annette Krauss, Managing Director, Center for Microfinance, University of Zurich
Philipp Krüger, SFI Junior Chair and Assistant Professor of Responsible Finance, University of Geneva
Julia Meyer, Postdoctoral Researcher, Center for Microfinance, University of Zurich

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Abstract
Sustainable finance has been attracting increasing attention in recent years. In this White Paper, the authors take stock of sustainable finance in Switzerland. They characterize potential drivers of sustainability and also discuss business interests and challenges related to incorporating sustainability considerations into the activities of Swiss financial sector players. Their analysis suggests that, apart from a range of specialized institutions and initiatives, the Swiss financial sector as a whole is currently not an international leader in terms of sustainable finance. An important implication of their study is that more high-level endorsement, leadership, and decisive action by all the major players of the Swiss financial sector is needed in order to strengthen Switzerland's international position in the sustainable finance world.

Table of Contents

Glossary

Active ownership
CFA Institute (2015, p. 20) describes active ownership as "the practice of entering into a dialogue with companies on ESG issues and exercising both ownership rights and voice to effect change".

Climate finance
Financing for investment projects that aim to mitigate climate change.

COP21
High-level meeting in Paris in December 2015, the twenty-first of the yearly sessions of the Conference of Parties (COP), where the Paris climate agreement was signed.

CSR
Corporate social responsibility.

Equator Principles
A voluntary risk management framework aimed at helping financial institutions determine, assess, and manage environmental and social risk in project finance and lending.

ESG
An initialism that stands for environmental, social, and governance and typically summarizes the thematic issues relevant to sustainable finance. Examples of concrete ESG issues include climate change and carbon emissions, gender and diversity, and bribery and corruption. For more examples, see Table 1.

Financial sector
The sector of the economy consisting of financial institutions that provide financial services.

Global Reporting Initiative (GRI)
An international nongovernmental organization that works toward making sustainability reporting standard practice for all companies and organizations by providing a reporting framework and standards.

Green finance
Financial products and services that respect environmental criteria.

Green real estate
Real estate projects and investments that consider environmental criteria (e.g., energy efficiency standards).

Impact investing
Investments in organizations and funds with the aim of generating social and environmental impact alongside financial returns.

Mainstream finance circles
Financial market participants—such as pension funds and their advisors, independent wealth managers, traditional private client advisors, and other finance practitioners—who do not take sustainability aspects into consideration in their activities.

Materiality
Materiality in the context of sustainable finance refers to certain ESG aspects that are thought to have an impact on long-term growth and profitability.

Project finance
Long-term financing (using a loan structure) of infrastructure and large industrial projects based on cash-flow estimations.

Retail banking
Defined as business (e.g., commissions, payment transactions, and interest margin business, such as retail mortgage lending) with Swiss retail customers with assets below half a million Swiss francs (SBA, 2015).

Sustainable development
Economic growth meeting "the needs of the present without compromising the ability of future generations to meet their own needs" (WCED, 1987, p. 16).

Sustainable Development Goals (SDGs)
A set of 17 goals (related to poverty, hunger, climate change, health, education, and other areas of sustainable development) developed by the UN General Assembly's Working Group on Sustainable Development Goals and adopted at the UN Sustainable Development Summit in New York in September 2015 in a UN Resolution entitled 'Transforming our world: the 2030 agenda for sustainable development'.

Sustainable finance
Long-term-oriented financial decision-making that integrates environmental, social, and governance (ESG) considerations.

Sustainable investment
Investment decisions categorized along one or more of six different lines: negative/exclusionary screening, positive screening, ESG integration, impact investing, thematic investments, and active ownership.

Thematic investment
Investing based on sustainability themes; examples include cleantech, energy-efficient real estate, and sustainable forestry.

Thun Group of Banks
Informal group of bank representatives that discuss and share experiences related to the implementation of the UN's Guiding Principles on Business and Human Rights. The name is derived from the location of the meetings.

UN PRI
UN Principles for Responsible Investing—a voluntary sustainability reporting framework for investors.

UNEP Inquiry process
High-level inquiry process across countries into how the financial sector may become more conducive to sustainable development; initiated by UNEP.

List of Abbreviations

ABS	The Association of Banks in Singapore
BRIC	Brazil, Russia, India, and China
CISL	Cambridge Institute for Sustainability Leadership
COP21	United Nations Framework Convention on Climate Change, 21st Conference of the Parties
CSR	Corporate social responsibility
ESG	Environmental, social, and governance
FIDLEG	Finanzdienstleistungsgesetz
FINFRAG	Finanzmarktinfrastrukturgesetz
FINIG	Finanzinstitutsgesetz
FINMA	Swiss Financial Market Supervisory Authority
FNG	Forum Nachhaltige Geldanlagen e.v.
FOEN	Federal Office for the Environment
GIIN	Global Impact Investing Network
GSIA	Global Sustainable Investment Alliance
HNWI	High net worth individual
MIFID	Markets in Financial Instruments Directive
MIFIR	Markets in Financial Instruments Regulation
MONET	Monitoring der Nachhaltigen Entwicklung (Monitoring of Sustainable Development)
PRI	Principles for Responsible Investment
SAAM	Swiss Association of Asset Managers
SBA	Swiss Bankers Association (Schweizerische Bankiervereinigung)
SDG	Sustainable Development Goals
SECO	State Secretariat for Economic Affairs
SFAMA	Swiss Funds & Asset Management Association
SFG	Sustainable Finance Geneva
SIF	State Secretariat for International Financial Matters
SME	Small and medium-sized enterprises
SSF	Swiss Sustainable Finance
UCITS	Undertakings for Collective Investment in Transferable Securities (European Union directives)
UN	United Nations
UNEP	United Nations Environment Programme
VSV	Verband Schweizerischer Vermögensverwalter
WWF	World Wide Fund for Nature

Executive Summary

Sustainable finance, broadly understood as long-term-oriented financial decision-making that integrates environmental, social, and governance (ESG) considerations, has been attracting increasing attention in recent years. This White Paper provides summarized information regarding this highly dynamic field and characterizes the drivers of sustainability and the extent to which sustainability aspects are implemented in the Swiss financial sector. The paper also discusses business interests and challenges related to incorporating sustainability considerations into the activities of Swiss financial sector players. It aims at broadening the debate on whether, and how, to implement sustainable finance more widely. To do so, the authors review policy, practitioner, and academic papers and draw on a series of expert interviews conducted in April and May 2016.

The main conclusions are as follows:

- All large players in the Swiss financial sector are dealing with sustainable finance, at least to some minimum degree. The strongest drivers are the fast pace at which sustainable finance is developing internationally and the anticipation of higher demand for sustainable finance products in the future.

- Of the larger financial market players in Switzerland, the majority still regard sustainable finance as a niche/specialized area and adopt strategies in which traditional and sustainable finance products coexist. A few institutions have opted for a full integration of sustainable finance, making it their unique selling proposition.

- Only few institutions—and typically smaller ones occupying specific niches [inward-oriented institutions, or those focused on specific (international) client segments with no interest in sustainability]—might be able to ignore sustainability issues in the short-run.

- Switzerland is characterized by the presence of a significant variety of specialized sustainable finance players, some of which are internationally known, distinguished organizations.

- Unlike certain of their peers, Swiss policy makers (e.g., the FOEN and SECO) are showing a keen interest in sustainable finance and related international developments, but—given Swiss regulatory tradition—are reluctant to intervene actively in the marketplace.

- Commonly perceived barriers to a more widespread adoption of sustainable finance include, but are not limited to, the complexity of the issue, knowledge gaps at all levels, cultural and generational conflicts, misconceptions about sustainable finance (potentially due to sticky beliefs), and a lack of standardization and terminology, as well as the difficulty of keeping up with the fast pace of product and policy innovation in the field.

- Established mainstream industry organizations (e.g., the SBA, SAAM, and SFAMA) are remarkably silent on the topic of framework conditions for sustainable finance and do not seem to regard it as a priority topic.

- The country-wide association Swiss Sustainable Finance (SSF) has made significant progress in increasing knowledge standards and promoting sustainable finance in Switzerland, but still struggles to penetrate mainstream and traditional finance circles.

- Apart from SSF, which is, by and large, an initiative driven by specialists, there is little evidence of a concerted effort to launch a broad sustainable finance *Finanzplatzinitiative* that would encompass the whole mainstream of the Swiss financial sector, including established industry organizations.

The authors draw the following recommendations from these findings:

- The authors judge a business as usual strategy, which ignores sustainable finance, to be too risky and recommend that even smaller institutions build on the experiences of larger players and embrace sustainable finance in the short to medium term.

- Given the absence of a financial-sector-wide initiative, institutions should carefully and individually decide on the speed at which, and the extent to which, they incorporate sustainability and ensure clear communication of their decision.

- There is an urgent need for a credible commitment to, and stronger support for, sustainable finance from the upper echelons of the Swiss financial sector (i.e., board and executive level). For such high-level sustainability championing to take place, the sustainable finance-related education of senior management, board members, and (chief) executives is necessary to advance know-how within institutions, foster cultural change, and legitimize the concept at all levels of the institutional hierarchy.

- There should be a careful examination of whether specific policy and regulatory measures to be found elsewhere, such as reducing investment barriers for pension funds and other institutional investors, or an official endorsement of sustainability as a core principle of the Swiss financial market place, could be implemented by Swiss policy makers. However, the main impetus for a broader adoption of sustainable finance must come from the core of the financial sector itself.

- Mainstream industry associations should make the establishment of framework conditions for sustainable finance a priority agenda item and evaluate how to integrate sustainable finance into their (self-regulatory) activities.

- Sustainable finance education, training, and development at all hierarchical levels should be a high priority in every organization.

- Financial institutions of all kinds should build more in-house expertise into their approaches to sustainability related issues. In doing so, it is important to mainstream such sustainability know-how within institutions and move beyond a compartmentalized organizational structure in which sustainability knowledge is concentrated in small, and sometimes marginalized, teams of experts. This implies ensuring the efficient and effective operational integration of expert sustainability teams into the core divisions of each institution.

- The authors believe that concerted effort and a high-level endorsement in the form of a new *Finanzplatzinitative* borne by the entire Swiss financial sector is necessary for Switzerland to credibly offer a broad and world-class product offering in sustainable finance.

1. Introduction

Sustainable finance, broadly understood as long-term-oriented financial decision-making that integrates environmental, social, and governance (ESG) considerations, is attracting increasing attention, not only from specialists but also in mainstream finance circles. On the one hand, assets managed according to some form of sustainable finance approach grew on average by about 34 percent between 2005 and 2015 in Switzerland according to a recent report by Swiss Sustainable Finance (SSF) and Forum Nachhaltige Geldanlagen (FNG), strongly outpacing the growth rate of traditionally managed assets (FNG/SSF, 2016). On the other hand, many Swiss lenders have started to implement, with regard to their lending activities, policies and practices that aim to better manage increasingly material environmental and social risks. While assets managed according to some sort of sustainability approach made up about 30.2 percent of all professionally managed assets in 2014, sustainable finance has still not reached the core and mainstream of financial markets (GSIA, 2015).

Financial and economic policy makers are, nevertheless, also focusing increasingly on sustainability issues. The Paris climate agreement signed at the COP21 meeting in Paris in December 2015 sets out ambitious targets with respect to the mitigation of greenhouse gas emissions. Also in 2015, world leaders adopted the 2030 Agenda for Sustainable Development, including a broad range of Sustainable Development Goals (SDGs). Achieving both sets of targets will require significant private sector finance, provide investors with substantial opportunities to participate in high-growth investment areas, offer substantial scope for financial innovation, and likely change the competitive environment for financial firms. Moreover, the G20, under the presidency of China in 2016, has created the Green Finance Study Group, in which Switzerland is represented. In 2014, the United Nations Environment Programme (UNEP) initiated a high-level inquiry into how the financial sector may become more conducive to sustainable development. Unlike certain other developed nations, Switzerland has contributed extensively to this inquiry (FOEN, 2015; 2016).

Building on the findings of the FNG/SSF report (2016) and the responses offered by the Swiss team (the 'Swiss Team') responsible for addressing the questions posed by the UNEP Inquiry (FOEN, 2015; 2016), the aims of this paper are:

- to provide summarized information on the fast-changing field of sustainable finance;
- to characterize the drivers of sustainability in the Swiss financial sector and assess the extent to which they influence decisions taken in the Swiss financial market place;
- to discuss business interests and challenges related to incorporating sustainability considerations into the activities of the key players of the Swiss financial sector within a medium-term framework; and
- to broaden the discussion within the Swiss financial sector about whether and how to implement sustainable finance more broadly

and to present possible sustainability strategies and their implications for players in the Swiss financial market and the sector as a whole.

The methods used in this paper include reviewing relevant policy, practitioner, and academic papers, and carrying out a range of expert interviews, which were conducted with representatives of different institutions from the Swiss financial sector in April and May 2016.

2. What Is Sustainable Finance?

There is no one, single definition of sustainable finance. However, people typically agree on a number of aspects that characterize the concept. First of all, sustainable finance relates to the interrelationships that exist between ESG issues on the one hand, and financing, lending, and investment decisions, on the other. To some extent, focusing on ESG issues is a way of operationalizing sustainable development in finance. Note that ESG issues are also strongly related to the notion of corporate social responsibility (CSR) used in the management literature. Secondly, sustainable finance is regarded as a long-term approach to finance and investing, emphasizing long-term thinking, long-term decision-making, and long-term value creation. This long-term aspect of the concept derives from the meaning of the word sustainable, which conveys that something lasts or continues for a long time.

Sustainability can be integrated into investment decisions with varying intensity, ranging from minimum to strict integration.

The word sustainability, as used in this paper, essentially refers to ESG aspects and related risks and opportunities. In the context of this paper, sustainability does not convey the notion of financial sustainability alone.

It is important to note that sustainability aspects can be integrated into investment decisions and the other activities of financial institutions with varying intensity. There is a continuum of implementation intensity, ranging from minimum to strict integration. Given the materiality of sustainability issues, different degrees of sustainability implementation can have different consequences for issues such as long-term growth or profitability. The strictness of implementing sustainability in business models and implementation strategies depends to a large extent on a perception of the materiality of ESG issues, and on the underlying motivations and preferences of the financial decision makers concerned.

2.1. Motivations for Pursuing Sustainable Finance

Research into the role of individual motivations for pursuing sustainable finance (Chatterji et al., 2009) typically distinguishes four types of motivation for investors and decision makers to incorporate sustainability aspects into lending and investment decisions—namely financial, values-driven (so-called deontological), influence-seeking consequential, and image-pursuing expressive motivations.

Research typically distinguishes four motives for incorporating sustainability into lending and investment decisions.

Financially driven sustainable finance decision makers take sustainability issues into consideration in order to make better risk management decisions (e.g., by complying with specific laws and international environmental and social norms and standards) thereby addressing controversial issues early on and seizing specific ESG-related opportunities. From a financial point of view, one motivation for incorporating sustainability issues into decision-making is to avoid future financial losses (e.g., through avoiding liability or reputational risks) and to make better investment and lending decisions in the long run. Moreover, analyzing sustainability issues allows one to identify new business opportunities and/or mis-priced assets. For instance, the large amounts of private capital deemed necessary to finance the investments required to reduce greenhouse gas emissions to levels in line with the Paris climate agreement's targets are seen as providing interesting opportunities, as are the investments required if the SDGs are to be achieved (FOEN, 2016).

Values-driven or deontological decision makers seek to avoid investments and other financial decisions that cause environmental or social harm because they consider such investments and decisions unethical; they may also pursue investments aimed at achieving specific, positive environmental or social impacts.

Consequentialist decision makers seek to influence firms' behavior by directing capital in ways that change behavior (e.g., by divesting from, and thereby raising the cost of capital of, firms whose activities are deemed unsustainable). Shareholder activists are another example of consequentialist investors.

Finally, expressive investors derive their social identity in part from their investments and association with good causes and therefore seek to invest sustainably.

2.2. Reporting and Measurement of ESG Information

Sustainability in the context of finance relates to ESG issues, which are also sometimes referred to as extra-financial issues. There is no definite list of ESG issues and the domain of relevant elements is constantly evolving. However, there are a number of issues that investors typically agree on. Table 1 provides a non-exhaustive list of common ESG issues.

Table 1: Common ESG issues.

Environmental	Social	Governance
Climate change and carbon emissions	Customer satisfaction	Board composition
Air and water pollution	Data protection and privacy	Audit committee structure
Biodiversity	Gender and diversity	Bribery and corruption
Deforestation	Employee engagement	Executive compensation
Energy efficiency	Community relations	Lobbying
Waste management	Human rights	Political contributions
Water scarcity	Labor standards	Whistle-blower schemes

Source: CFA Institute, 2015

Mandatory reporting of ESG information is still the exception rather than the rule in most jurisdictions. Some countries and blocs are introducing such regulations; a prominent example being the European Union with its EU directive on non-financial reporting, which requires large firms to report on ESG issues. However, this EU directive is largely non-prescriptive and leaves significant flexibility for companies to disclose, or not, relevant information (European Commission, 2016). Also, the ongoing implementation of the directive in country-specific laws differs substantially from one country to another, meaning that sustainability reporting is much less standardized than is financial reporting.

Mandatory reporting of environmental, social, and governance information remains—in most jurisdictions—the exception rather than the rule.

The measurement and quantification of ESG issues remains challenging. There are several reasons for this. First, ESG issues are often qualitative in nature, making them hard to quantify and aggregate (Rowley and Berman, 2000). Second, the complexity of social and environmental issues adds to the difficulty of quantifying them. In the case of environmental issues, the Cambridge Institute for Sustainability Leadership (CISL) and UNEP note that the difficulty of quantification derives also from their interconnectedness, and from uncertainty with regards to when, how often, and how strongly environmental risks materialize (CISL/UNEP, 2015). The third, and most important, reason is the aforementioned lack of both legal obligation and a unified and agreed upon framework for companies (or investors) to report in a comprehensive and standardized way on ESG issues.[1]

Measuring and quantifying ESG issues remains a challenge.

There are, however, voluntary sustainability reporting frameworks for firms (e.g., those of the Global Reporting Initiative) or investors [e.g., the UN Principles of Responsible Investing (UN PRI)]. Such frameworks can guide investors and firms that report ESG information in sustainability reports,[2] reports which constitute an important source of firm-specific ESG information. The quality of ESG information has improved over time and efforts are being made to increase its level of standardization. The Sustainability Accounting Standards Board, an independent, non-profit organization, is working to develop and disseminate sustainability accounting standards that help public US corporations disclose financially material ESG information to investors through regulatory filings. However, the quality of available non-financial information still remains unsatisfactory.

Based on sustainability reports, other sources of information (e.g., press databases or social media), and a multitude of different and sometimes highly untransparent approaches, different information intermediaries produce credit rating-like ESG measurements. In contrast to credit ratings, these measurements are not necessarily public information, and changes in methods or ratings are typically not announced publicly. The measurements can be at the firm or the country level, or directly at the

[1] Exceptions include the mandatory requirements for French institutional investors as part of the Law for the Energy Transition and Green Growth, and requirements imposed by the Johannesburg Stock Exchange, where companies have to report comprehensively on ESG issues, or the London Stock Exchange, where—as per the Companies Act 2006 – Regulations 2013—quoted companies have to disclose their carbon emissions in order to be admitted to the exchange's Main Market (Krueger, 2015).

[2] According to Healy and Casey (2014), a sustainability report is a periodic report that conveys sustainability-related information in a way that is comparable with that used in financial reporting.

security level.[3] It should be noted that ESG measurements from different data providers are not always consistent with one another (Chatterji et al., 2016), which is likely due to different approaches and a lack of standardization in sustainability reporting. Still, many sustainable finance approaches use such measurements either for asset allocation purposes or forsustainability impact measurement.

2.3. Different Forms of Sustainable Finance

This subsection discusses some of the most common approaches used to implement a sustainability approach. It differentiates, in a somewhat simplified manner, between investment and lending as the two main business lines in which banks and other financial market intermediaries can be involved, and in which sustainability is approached in different ways and to different degrees.

2.3.1. Investment

The practice of sustainable investing has evolved substantially since its early forms, which largely consisted of exclusionary or screening approaches that, based on moral or ethical considerations, excluded individual assets or sectors from a portfolio. According to commonly used classifications (CFA Institute, 2015; Eurosif, 2014; GSIA, 2015) sustainable investments are typically categorized along the six following lines, which investors sometimes pursue in combination:

[3] To name but a few, international financial data providers such as Datastream and MSCI have started to provide standardized ESG ratings of firms; yourSRI provides access to a range of ESG performance measurements; and some Swiss-based pioneers, such as Inrate, RobecoSAM, and RepRisk, also provide ratings against comprehensive or specific ESG aspects.

Table 2: Categorization of sustainable investments.

Negative/exclusionary screening
Negative or exclusionary screening consists of avoiding specific assets due to considerations of moral values (e.g., tobacco or gambling), standards and norms (e.g., human rights), ethical convictions (e.g., animal testing), or legal requirements (e.g., controversial armaments such as cluster bombs or land mines, excluded in order to comply with international conventions). Applying such screening mechanisms to multi-sector firms obviously requires a more detailed analysis of the activities of each firm. For instance, financial reports by industry segment may allow one to establish whether a firm's primary business is located in a given controversial area.
Best-in-class/positive screening
In contrast to negative/exclusionary screening, best-in-class (or positive) screening consists of investing predominantly in assets with high ESG performance. The idea behind such a best-in-class selection is that it might result in improved risk and return characteristics for a portfolio, besides the possible intent to support companies with high sustainability performance. There are an increasing number of reference indexes that allow for the design of passive investment strategies following indexes that combine both positive- and negative-values-based screening. Such indexes have been developed in both the equity and fixed-income spaces in recent years. Yet the screening criteria and resulting composition of these indexes need to be inspected carefully, as they reveal very different degrees of strictness with regard to ESG issues. Different screening criteria and methods contribute significantly to the fact that existing sustainability products can have varying degrees of sustainability. The persistent challenges involved in accurately quantifying an asset's sustainability performance might even lead to situations in which ex post unsustainable assets have been included in sustainability indexes (e.g., the recent cases of Volkswagen or BP). Examples of index products applying such strategies are listed in the appendix.

ESG integration
ESG integration is the systematic and explicit inclusion of ESG risks and opportunities in investment analysis (CFA Institute, 2015). While being similar to best-in-class approaches, ESG integration does not necessarily use ESG performance benchmarking between peers or weighting based on ESG performance. Unlike best-in-class, ESG analysis is used to better identify the risks and opportunities attached to an asset. The idea is that full integration of ESG aspects into traditional financial analysis leads to better risk and return evaluation.
Impact investing
According to the Global Impact Investing Network (GIIN), impact investments are investments made in companies, organizations, and funds with the intention of generating social and environmental impact (pursuit of positive externalities) alongside a financial return (GIIN, 2016). These investments are most often actively managed by specialized asset managers, and made in private markets although there are an increasing number of impact investment solutions that rely on investing in public markets. One commonly known form of impact investing is microfinance; another is development investment. Since impact investing is typically conducted over the counter, it is somewhat less accessible to retail investors. Secondary markets often do not exist and liquidity is an issue to the extent that some investors refrain from investing because of the lack of exit options. The lack of both scalable and high-quality investment projects is also sometimes cited as a problem that holds back further growth in this area.
Thematic investments
Thematic investing refers to investing that is based on sustainability themes such as cleantech, energy-efficient real estate, or sustainable forestry (CFA Institute, 2015). Sustainability-themed investments have experienced strong growth in recent years. The Global Sustainable Investment Alliance (GSIA) estimates that sustainability themed investments increased by about 115 percent between 2012 and 2014 to USD 116 billion (GSIA, 2015). An important area for thematic investments is infrastructure investment, where energy infrastructure, transportation infrastructure, and real estate investments are particularly relevant from a sustainability perspective. Investments in these areas are heavily influenced by public policies and regulation. For instance, as a result of the Paris climate agreement, the number and volume of climate change investment promotion vehicles and tools is increasing fast (UNFCCC, 2016). Given that attaining the SDGs and the climate targets of COP21 will require large amounts of private sector finance, sustainable infrastructure investment—potentially as an independent asset class—will become increasingly important for long-term-oriented investors such as pension funds, insurance companies, or sovereign wealth funds (Weber et. al., 2016).
Active ownership
As opposed to the ex ante approaches detailed thus far, "active ownership refers to the practice of entering into a dialogue with companies on ESG issues and exercising both ownership rights and voice to effect change" (CFA Institute, 2015, p. 20). There is evidence that investors increasingly engage companies on environmental and social issues. For instance, Welsh and Passof (2015) document a record number of proxy votes related to social and environmental issues in the 2015 US proxy season. In addition, analyzing a proprietary data set of ESG shareholder engagements implemented by a large institutional investor, Dimson et al. (2015) report not only an increasing number of ESG engagements over their sample period, but also that such engagements increase shareholder value. In parallel to such positive effects, active engagement can, however, incur additional costs for investors, in particular when delegated to specialized bodies.

Source: CFA Institute, 2015; Eurosif, 2014; and GSIA, 2015

2.3.2. Lending

When incorporating sustainability issues into lending, the focus is mainly on environmental and social issues, as many common governance issues are usually addressed through financial sector regulations. According to Jaeggi et al. (2015), environmental and social risks occur when financial institutions provide financial services to companies that are associated with controversial issues, including business practices, sectors, projects, and/or countries that are—directly or indirectly, allegedly or actually—associated with detrimental environmental and social impacts.

In lending, sustainability considerations are thus very much driven by the lender's desire to avoid financing controversial activities. Of chief concern is a reluctance to be associated with activities that cause harm, since such an association can result in an adverse financial impact, either through lender-liability or through reputation losses for the lender. Common activities that might be completely avoided by lenders, or only financed when controlled by stringent, predetermined guidelines, include illegal logging activities, child labor, or activities in controversial areas such as hydraulic fracturing, arctic drilling, palm oil, soy, or coal-fired power plants.

The lender's desire not to finance controversial activities drives sustainability considerations in the field of lending.

Specific environmental risks are already part of the Basel III requirements for credit and operational risk assessments, but they are neither fully implemented yet, nor used in financial sector-wide risk assessment (CISL/UNEP, 2014), despite the recent commitment of the big credit rating agencies to integrate ESG considerations into their rating approaches (UN PRI, 2016). A common framework that enables banks to consider environmental and social issues in the field of lending is provided by the Equator Principles (2013). These principles constitute a risk management framework that can help financial institutions to determine, assess, and manage the environmental and social risks inherent in their projects. While the principles were designed mainly for project finance, they are also used to provide guidelines for the assessment of environmental and social risks in the general lending business. The Equator Principles (2013) provide a minimum standard for due diligence in support of responsible risk decision-making. As of July 2016, 84 financial institutions from a total of 35 countries have officially adopted the Equator Principles. These Equator Principles Financial Institutions cover about three-quarters of international project finance debt in emerging markets.

Another area where banks' lending business is arguably subject to increasingly binding standards and scrutiny is that of human rights (Jaeggi, 2014). The United Nations Guiding Principles on Business and Human Rights, endorsed by the UN Human Rights Council in 2011 (UNGP, 2011), are considered to be "an overarching global standard" by the Thun Group of Banks (2013, p. 3). The OECD Guidelines for Multinational Enterprises are another example of guidelines for corporations regarding human rights. Last but not least, the crucial role of banks with regard to the soundness of the financial system, and conversely the dangers of material environmental and social risks to banks' and financial systems' stability, has led to a high-level discussion on the need for more sustainability-focused banking regulation (CISL/UNEP, 2015), elements of which have in turn been incorporated into the UNEP overview (UNEP, 2015) and have led to regulatory advances in countries as diverse as the UK, Brazil, and China.

2.4. Financial Performance of Sustainable Finance

While there is increasing recognition of the financial materiality of ESG risks and opportunities, there is still a common and deeply rooted misperception among finance professionals that sustainable finance does not perform financially.

When it comes to the integration of ESG issues and to best-in-class approaches, one study (Friede et al., 2015), the most comprehensive of its kind, systematically analyzes the results of more than 2,000 academic studies on the link between ESG questions and financial performance. The authors of that study conclude that the overwhelming number of studies find a significantly neutral or positive correlation between sustainability (ESG) and financial performance at the level of the firm. This conclusion is also reached by other methodologically sound meta-analyses that, in addition, differentiate between correlations and causal relationships (these include Wang et al., 2015), and by the (albeit less comprehensive and systematic) review performed by Clark et al. (2015). Outperformance in other assets classes such as real estate or fixed income is even stronger than in the most commonly analyzed asset class—equity.

When assessing the financial performance of sustainable finance it is important to note that different forms of sustainable finance can have different risk and return characteristics. For instance, thematic investments, which are often concentrated industry bets, are fundamentally different from screening approaches, ESG integration, or impact investing. A very strict exclusionary strategy could lead to a dramatically smaller investment universe that inhibits efficient risk diversification and might reduce investment performance. At the same time, the exclusion of certain unsustainable securities might have a positive impact on financial performance due to the better management of ESG risks or to the identification of mis-priced assets. However, these links between the intensity of a chosen sustainability strategy and financial performance are yet to be empirically tested, as most statistical studies to date do not—due to a lack of adequate data—differentiate results with regard to different investment strategies.

In recent years, analyses of sustainability and financial performance have begun to refine aspects of sustainability that are material with regards to the long-term growth and profitability of businesses (Clark et al., 2015, and Deloitte, 2012).

While making the business case for sustainable finance is certainly important in terms of rendering it attractive, it should be noted that sustainable finance ought to play a prominent role in financial markets even in the absence of risk-adjusted outperformance. Particularly given that many forms of active fund management have difficulties to generate persistent risk-adjusted outperformance (Barras et al., 2010). The financial sector plays an important role in financing the future structure of the economy, and a pivotal role in allocating capital to projects that contribute to sustainable development (e.g., energy efficiency, pollution reduction, humane work conditions, reduced biodiversity loss).

Given the financial sector's role in allocating capital to sustainable development projects, sustainable finance should be prominent even without risk-adjusted outperformance.

3. Current Trends in the Swiss Financial Sector

The financial sector plays an important role for Switzerland. In 2014, it provided 6 percent of the country's jobs and contributed 10.2 percent of Switzerland's GDP (SIF, 2015; BFS, 2016). The most important of the sector's activities is traditional private banking (BAKBASEL, 2015). Such private banking services are typically provided not only by banks, but also by other financial service providers (e.g., independent wealth managers). Most importantly, Switzerland is the global leader in cross-border wealth management with a global market share of approximately 25 percent (SBA, 2015b). Life insurance companies and pension funds also contribute significantly to the importance of the Swiss financial sector for the country.

Private banking in the sense of client services and wealth management is expected to remain the largest source of income for the Swiss-based banking sector. This activity is expected to make up about 50 percent of Swiss-based gross banking income in 2018 (SBA/BCG, 2014). Its importance is mainly driven by Switzerland's long tradition in private banking and the country's important role in the global cross-border wealth management market (SBA/BCG, 2014; SBA, 2010). Nevertheless, the strong position of Switzerland (and other European countries) in cross-border private banking services is coming under increasing pressure from increasingly attractive investment opportunities, product offerings, and economic growth in other financial centers, including Singapore, Hong Kong, the UK, and Luxembourg, and from significant changes in the regulatory framework (SBA, 2015b).

Other business lines that make up the diverse banking landscape in Switzerland are, to some degree, also coming under competitive pressure to streamline and modernize. Except for the two big banks, Swiss players are mainly involved in micro-enterprise and in lending to small and medium-sized companies (SMEs), as well as in the mortgage business; but less in other forms of lending, such as project finance. Retail banking accounts for approximately 28 percent of the gross income of Swiss-based banking activities, while corporate client business accounts for 14 percent (SBA/BCG, 2014). In the corporate client business, growth opportunities are mainly expected to come from offering services to Swiss companies that also operate abroad.

Asset management accounts for 6 percent of gross income and the remaining small share of gross income can be attributed to investment banking (SBA/BCG, 2014). Switzerland is not yet a leader in institutionally oriented asset management (SBA, 2015b). However, institutional investors have become more important for Swiss banks recently, and this trend is expected to continue; moreover, global asset management is expected to grow significantly in the coming years (SBA, 2015b).

Possibly even more so than banks, non-bank financial institutions, which make up a significant share of the financial market in Switzerland, are experiencing increased pressure due to regulatory changes and the strength of the Swiss banks. Consolidation in the field of independent wealth managers is expected to continue, mostly driven by the costs entailed by

regulation and by the lack of financial institutions willing to act as custodian banks (SBA, 2015b; Bergmann et al., 2014).

Across all business areas, the trend toward lower profit margins is expected to continue. This is mainly driven by the low interest rate environment and increasing competition. Banks have therefore been forced to increase efficiency by reducing costs (e.g., personnel costs) (SBA/BCG, 2014) and to address current challenges such as digitalization and Fintech (SBA, 2015a) as well as ongoing regulatory changes, which are discussed below.

Thus, Swiss financial sector players need to consider this current challenging environment when addressing sustainability choices in their business models and operations.

4. Drivers of Sustainability in the Swiss Financial Sector

This chapter explores the forces that could be driving the issue of sustainability within the financial sector in Switzerland. Three main factors are identified:

- The increasing demand for sustainable finance products;
- The changing policy, legal, and regulatory framework;
- Voluntary efforts within the industry.

What forces are driving sustainability within the financial sector in Switzerland? Three main factors were identified.

All three are, according to the UNEP Inquiry's comparative review, essential for driving the integration of sustainability into financial markets (UNEP, 2015).

4.1. Increasing Demand for Sustainable Finance Products

Representative evidence—collected in independent studies—of the motivations of Swiss investors is still hard to come by. A recent small-scale study among high net worth individuals (HNWIs) in Switzerland confirms the predominance of individual motivations (e.g., ethical or financial) and of perceptions of opportunities and barriers (e.g., the perceived volatility of sustainable investments) related to sustainable investing as being important demand-influencing factors (Busch and Paetzold, 2014).

Broader survey results show that the Swiss population is generally concerned with the environment, although somewhat less than the European average (European Trusted Brands, 2014). Interest is slightly higher for specific issues, such as the more active promotion of renewable energy and energy efficiency (Ebers and Wüstenhagen, 2015). Eurosif (2014) concludes that the comparatively high share of retail investors among sustainable investors in Switzerland is the result of the significant presence of HNWIs and the importance of private banking.

Swiss institutional investors, in particular pension funds, who had been considered slow adopters of sustainability practices as late as in 2012 (Ishibashi and Laakso, 2012), are now also showing increasing interest (see the more recent Swiss pension fund survey by WWF, Hierzig, 2016). Institutional investors in Switzerland are thus catching up with their counterparts in other countries (e.g., the Netherlands, Nordic countries, the UK, or the US), which have a long tradition of being important drivers of sustainability considerations in financial markets.

There is increasing interest in sustainability practices from institutional investors—particularly pension funds.

All financial sector players interviewed for this paper confirm a steadily growing demand from their clients for sustainability-related products and solutions. This growing demand is not limited to institutional investors, but is also observed among retail clients, as well as among clients in private banking and wealth management. In particular, younger generations, which are expected to inherit large amounts of wealth over the coming decades (WEF, 2014), are showing significantly higher interest in sustainability-oriented investment solutions: surveying 800 individual investors globally, Morgan Stanley (2015) finds Millennials (i.e., cohorts born between 1980 and 2000) to be about twice as likely to invest in companies or funds that target specific social or environmental outcomes. Even though there is increased interest from all sorts of clients with regards to becoming more informed about sustainability-related products, investment decisions are not always followed through, and informational barriers—such as, for instance, those identified by Busch and Paetzold (2014)—do seem to play a major role in holding back demand, in particular among private clients.

4.2. Policy, Legal, and Regulatory Frameworks

While regulation might possibly drive the supply side of sustainable financial products and services (see for instance People's Bank of China/UNEP, 2015), the topic of sustainability is currently not dealt with in Swiss financial sector regulations or ongoing legal and regulatory reforms. Switzerland is participating in the G20 discussions on green finance, but concrete measures are yet to be implemented. This is in contrast to, and in disconnect with, recent statements made by the Federal Council, which commented in February 2016 on the opportunities for Switzerland's financial sector with regards to environmental sustainability in the context of financial markets:

"Thanks to its expertise in the environment sector, the favourable framework and a strong financial sector with immense specialist knowledge, Switzerland has the potential for a long-term competitive advantage in the area of sustainable investments." (Schweizerischer Bundesrat, 2016a).

The UNEP Inquiry assigns a central role to rule-makers for financial systems (UNEP, 2015), and international norms, soft standards, and practices are constantly evolving. Financial sector policies and regulations should foster greater standardization in reporting on sustainability-relevant issues, and in the sustainability-relevant performance reporting of financial institutions (UNEP, 2015). Switzerland seems to be one of the many developed economies that are, according to UNEP (2015), on average less inclined than developing and emerging economies to adopt explicit and systematic financial sector policy measures or regulations related to sustainability (see the report on BRICs by Revellino et al., 2015).

The general legal, regulatory, and policy frameworks in Switzerland encompass a steadily growing number of legal texts and policy statements concerning sustainability. Similar to other constitutions that have been drafted or revised in recent decades (Wheeler, 2013), the Swiss Federal Constitution explicitly mentions, in a prominent position, not only the protection of the environment but also sustainability (Article 2) as national objectives, implying that federal and cantonal institutions are obliged to apply appropriate implementation strategies. Indeed, since 1997 Switzerland has been implementing a series of national strategies and action plans alongside a system (MONET) for the quantitative monitoring of sustainable development. MONET is a joint project between the Federal Statistical Office (FSO), the Federal Office for the Environment (FOEN), the Federal Office for Spatial Development, and the Swiss Agency for Development and Cooperation. The MONET system was revised as recently as 2016 (FSO, 2016) to take account of the SDGs. The national strategy 2016–2019 is strongly embedded in Switzerland's commitments to sustainable development. Switzerland is a signatory of Agenda 21 and its follow-up documents, most recently the United Nations Agenda 2030 and the SDGs. Recent federal policy positions in selected areas of sustainability take quite strong stances; for instance, the position

paper on the active promotion of corporate social responsibility (Schweizerische Eidgenossenschaft, 2015).

Policy, legal, and regulatory frameworks are not the main driving force pushing the Swiss financial sector to include sustainability objectives in its core activities.

A review of existing and planned financial sector specific laws, regulations, and policy statements shows that the Swiss policy, legal, and regulatory frameworks are not the main drivers pushing the Swiss financial sector toward incorporating sustainability-related objectives in its business operations and core activities. Rather, sustainability is considered to be a private sector concern, giving priority (to) market solutions and the principle of subsidiarity (Schweizerischer Bundesrat, 2016a). Despite the importance of the national sustainability strategy 2016 for all areas of policy making, sustainability-related financial sector policies and regulations are limited to governance-related topics, in particular in the context of the avoidance of illegal and illicit money transfers—such as compliance with anti-money-laundering and related regulations—tax laws, consumer protection and transparency, and too-big-to-fail regulations (Schweizerischer Bundesrat, 2016b), or in the context of executive pay (Minder Initiative; FDJP, 2014). The policy position thus reflects the ongoing legal and regulatory changes being made to the Swiss financial sector. Other than that, the strategy requests a better reflection of true costs—that is to say, an increasing degree of internalization of external costs into prices in the real economy, specifically with regards to energy, mobility, waste, space, and natural resources. Such considerations are, in part, reflected in existing policy initiatives or studies that touch the financial sector, including the policy position paper on corporate social responsibility (Schweizerische Eidgenossenschaft, 2015) and the development of a national action plan on business and human rights (FDFA, 2015). These efforts, thus, do not embrace the UNEP recommendation to increase reporting and transparency requirements specifically with regards to the financial sector. The most direct inclusion thus far of a sustainability topic relevant to the financial sector is a legal provision from the 2013 revision of the *Kriegsmaterialgesetz* that—arguably—requires norm-based screening with respect to certain types of armaments as a legal minimum standard for the financing or indirect financing of such armaments.

Switzerland is currently undergoing a process of fundamentally revising its financial market legislation, in particular through FIDLEG, FinfraG, and FINIG. In line with a market-based policy approach, and not surprisingly, sustainability is—with the exception of reforming governance structures—not a concern in this revision process. The FIDLEG draft does not follow recent innovations applied by countries such as Brazil, Bangladesh, China, France, and the UK, which are incorporating the ESG information obligations of financial intermediaries in their investor protection or pension fund regulations, according to UNEP (2015); rather, it follows the approach preferred by the European Union, which has chosen not to include such regulations in MiFID2 and MiFIR (Bauer and Schuster, 2016). Nor is it currently under consideration to use stamp tax or liquidity regulations to adjust prices in order to make sustainable investment products more attractive, or to revise the definition of the fiduciary duty of pension funds with respect to ESG integration. Governance-related issues, considered more pressing, are given priority over reporting on sustainability by institutions, and over other active measures to influence the time horizon of financial sector decisions. Also, there are no regulatory efforts aimed at making sustainable investments more interesting to pension funds or other institutional investors: PWC (2014) emphasizes that implementing Basel III regulations for banks even plays against sustainable investments as long as they are classified as alternative investments, since assets classified as such require more regulatory capital. Existing

Solvency II rules have similar effects on incentives for insurance companies to invest in, for example, (sustainable) infrastructure.

In sum, the country's financial sector policies and regulations do not deviate from the standard Swiss approach to ensuring a level playing field for all types of financial institutions and steer clear of requiring a more comprehensive consideration of the materiality of ESG factors and their integration into investment or lending decisions. Hence, Switzerland cannot be considered a pioneer in terms of sustainability-related financial market regulation that might overcome the limitations of a purely voluntary approach (UNEP, 2015).

4.3. Voluntary Efforts from the Industry

Following the traditional approach of Swiss financial sector regulation, voluntary measures are encouraged and are showing some promising, but not yet overwhelmingly strong, effects. For example, in Sustainable Finance Geneva (SFG) and SSF, Switzerland has both regional and national associations that promote sustainable finance. Building on the achievements of regional pioneers (e.g., SFG, The Sustainability Forum), more recently, the creation of SSF, a national association of institutions, has given rise to an organization that pursues sustainable finance promotion objectives at the federal level, alongside its knowledge transfer and capacity building efforts (Eurosif, 2014).

The SIX stock exchange does not play a prominent role in the global Sustainable Stock Exchange Initiative, being active in only one area—namely, the disclosure of two ESG-related indexes (SSE, 2015): since June 2014, SIX lists daily the SXI Switzerland Sustainability 25 Index (total return and price).

Yet while such voluntary efforts are clearly encouraging, their main shortcoming is that these organizations are still unable to strongly penetrate mainstream finance circles in Switzerland and are currently providing platforms mostly to specialists and specialized sustainable finance institutions.

Regional and national groups promote sustainable finance. But while such efforts are encouraging they are struggling to penetrate mainstream finance circles.

Voluntary sustainable finance efforts from mainstream industry associations such as the Swiss Bankers Association (SBA), the Swiss Funds & Asset Management Association (SFAMA), or the Swiss Association of Asset Managers (SAAM) are non-existent, despite the fact that any efforts that these associations might engage in would be likely to have a significant effect. Ideally, such mainstream associations would join forces to propose a concerted *Finanzplatzinitative* around sustainable finance, but this is something they still appear unwilling to do. Indeed, the topic of sustainable finance appears to be a rather low priority for these organizations. Further, the self-regulation activities of independent wealth managers do not include voluntary sustainability-related standards.

Quite encouragingly however, the Federal Office for the Environment (FOEN) has opened a dialogue with a diverse group of financial sector players, academic institutions, nongovernmental organizations, and public authorities on the topic of sustainability in finance. In close collaboration with the relevant federal departments [e.g., the State Secretariat for International Financial Matters (SIF) and the State Secretariat for Economic Affairs (SECO)] and with the support of a diverse group of engaged stakeholders (the Swiss Team), the FOEN has contributed extensively to the UNEP Inquiry process (FOEN, 2015; 2016). This voluntary contribution to the inquiry is in stark contrast to what is occurring in other developed economies, many of which have not contributed to the UNEP Inquiry at all.

5. Sustainability Choices and Implications for the Swiss Financial Sector

In this chapter, sustainability choices and implications for the main actors of the Swiss financial sector are discussed. The chapter is structured along the lines of the most important functions exercised within the sector and aligned with this paper's previous analysis of the sector. These functions—which can be split into two categories—are, first, investment, including private banking/wealth management, asset management, advisory functions hereof, and activities pursued by institutional investors (e.g., pension funds), and, second, lending, which covers retail (e.g., mortgage), micro-enterprise, SME, and corporate lending business.

Given the hands-off approach to sustainability embodied in Swiss financial sector regulations, each player can choose how to position itself with regards to sustainability, and whether to pursue a pure mainstream, an entirely sustainability-focused, or a hybrid strategy.

5.1. Investment

Private banking/wealth management

In addition to the specialized private bankers and other banks that make up a large part of the private banking and wealth management sector, the two big banks are significant players on a global level, as are certain specialized independent wealth managers. Smaller independent wealth managers also contribute significantly to the importance and reputation of Swiss private banking. Current strategies with respect to sustainability in private banking and wealth management are as diverse as this list of players.

The Swiss private banking and wealth management industry has the means at hand to monitor and evaluate ESG exposures and, through specific investment strategies, incorporate sustainability into the wealth management service it proposes to its clients. The toolbox of sustainable investment strategies and related products for managing wealth and advising qualified investors is well equipped. Each individual wealth management and private banking organization can thus choose whether to pursue a mainstream, an entirely sustainability-focused, or a hybrid strategy to determine its product range for private banking and wealth management clients. As previously noted, currently neither regulatory constraints nor consolidated efforts made by industry associations aimed at repositioning their respective industries around the concept of sustainability exist. Thus, for private banking and wealth management functions, individual choice implies a need, when choosing a strategy with regards to sustainability, to individually effect a trade-off between costs and risks on the one hand, and opportunities, on the other.

> The private banking and wealth management sector can monitor and evaluate ESG exposures, incorporating sustainability into its service offerings.

This White Paper's review of the current practice of sustainability-related strategies and their

implementation within the Swiss private banking and wealth management industry delivers a mixed picture.

The two big banks explicitly offer sustainable products and have been increasing their in-house expertise and the scope of their teams, at various speeds and at different points in time. Both are signatories of the Principles for Responsible Investment (PRI) and report accordingly; one, however, reporting only with regards to its asset management branch. ESG information is retrieved for stocks, and to a lesser extent for other asset classes. Specific sustainable products across several asset classes exist in parallel to mainstream offerings, as do sustainability mandates. Typical hindrances to a more widespread adoption of sustainability approaches include, on the one hand, the perceived limited validity of ESG-related information and the sustainability performance measurement of underlying investment titles, and, on the other, the need for specific knowledge among product, portfolio, and client relationship managers. ESG functions (e.g., extra-financial analysis, environmental risk management, or research) seem still largely separated from mainstream functions (e.g., asset allocation and traditional financial analysis), with mainstream functions still being skeptical about the added value of sustainability analysis.

The other large group of banking institutions involved in private banking and wealth management is made up of other large banks, including some former and current private banks and some cantonal banks, which serve a mix of wealthy domestic and international clients. The research carried out for this White Paper shows that, like the big banks, this group does not regard a pure mainstream strategy that completely ignores sustainability aspects as being viable. These other banks see their minimum strategic requirements as including defining a house view on sustainability, bringing in expertise, and establishing a parallel offering of sustainability products for interested clients. Today, all banks in this group are offering such specialized sustainability products. A few are going further by mainstreaming ESG integration into their core activity. In such cases, sustainability analysis becomes core to the financial analysis of individual securities and fully integrated into the group's product offerings. While these banks position themselves as sustainability leaders, this approach is still the exception and it seems that the majority of players in this group regard sustainability as an independent niche rather than as a part of their core product offerings.

Independent wealth managers filling advisory or mandate roles for domestic or international clients face the same basic choice of whether, when, and how to embrace sustainability. There is no hard evidence with regards to what proportion of advisors offer even minimum advice on sustainable investments or specialize in the topic of sustainability, given that the industry is somewhat opaque compared to the banking industry. The requirements embodied in FINIG and FIDLEG with respect to reporting, education, and other points are impacting the traditional Swiss self-regulatory regime in this segment of the financial sector. These changes are considered substantial and difficult and costly to implement for many players (VSV Annual Report, 2014). Even though there is a range of specialized, sustainability-oriented independent wealth managers in Switzerland, it seems as though sustainability issues are not currently a priority concern for the sector as a whole.

Implications for private banking/wealth management sustainability strategies

Given the importance of a client-centered approach and client segmentation in global cross-border wealth management markets (BCG, 2015), private bankers and wealth managers should also evaluate whether sustainability could be the theme of a new flagship offering in Swiss-made sustainable wealth management, in particular since sustainability-themed investments are somewhat less prevalent and less developed in Asia (GSIA, 2015). Swiss-based institutions might be able to effectively differentiate themselves from Asia Pacific players by offering a sustainability-oriented

flagship product in the up-and-coming cross-border wealth management hubs of Singapore and Hong Kong. Considering that environmental and social issues are increasingly moving onto the agendas of Asian investors, product offerings around sustainability might allow Swiss-based institutions to tap into emerging demand for sustainability-oriented wealth management services in Asia Pacific—a region that will remain a strong engine of wealth creation in the years to come (BCG, 2015).

There is a need, from the wealth management perspective, to understand short-, medium-, and long-term clients' preferences for sustainability before going ahead.

There is a need, from the wealth management perspective, to understand short-, medium-, and long-term clients' preferences for sustainability before going ahead with launching such new products. Survey evidence suggests that in contrast to the currently still relatively low, albeit increasing, share of sustainable investments in overall investment terms (SBA, 2015b; FNG/SSF, 2016), next generation wealth management clients will be increasingly interested in sustainability and impact-related products (US Trust, 2014). In addition, next generation clients might not want to choose the same client advisor as their parents (Morgan Stanley/Campden Wealth, 2014). In order to retain future generations of clients, it is advisable to develop an appropriate sustainability product offering. Moreover, the industry's self-regulatory efforts could also address sustainability in an active manner.

Asset management

Traditional asset management is a less important source of revenues for Switzerland-based banking activities. While many larger banks have asset management units, these are often run from outside Switzerland. Several major, international independent asset management companies have a significant presence in Switzerland, which serves as a regional hub. In light of the relatively low importance of asset management—accounting for only around 6 percent of the gross income generated by Swiss banking activities in 2013 (SBA/BCG, 2014)—the SBA and the SFAMA launched their 'Asset Management Initiative' in 2012 to find ways of developing asset management into a main pillar of Swiss banking. At the time of writing, however, it seems that the initiative has still not achieved its objective, and the asset management and banking sector have not managed to develop closer ties.

A recent study by SFI/ZEB (2016) paints a rather pessimistic picture of the entire asset management industry in Switzerland. The report highlights infrastructure as a strength, but points to shortcomings when it comes to creating new solutions and products as a core weakness of the Swiss asset management sector. The report goes as far as stating that the sector's innovative strength in terms of appropriate asset management solutions and products is viewed rather skeptically, in particular by investors, and that the quality of internationally accepted vehicles is perceived as mediocre, despite the rather positive connotations of the term 'Swiss asset management'. The report also finds that the Swiss asset management industry is currently lacking real and recognizable unique selling points, although branding is among the industry's core strengths.

Thus, combining the strong international perception of the Swiss brand with a new sustainability-oriented flagship offering seems a promising idea. Given the strong constitutional anchoring of sustainability in Switzerland, and the international perception of the country as an environmentally conscious nation, it seems as though 'Swiss Sustainable Asset Management' could potentially address this lack of unique selling points. The potential for such a new positioning was also highlighted recently by the Federal Council (see the section on policy, legal, and regulatory frameworks).

Indeed, sustainable investment strategies and related investment services for institutional investors are somewhat less developed in the field of asset management than in that of private banking. Nevertheless, the big asset managers, within both the banks and independent firms, do have access to international experience and sustainable investment solutions. For some independent asset management firms, a long-term, risk-driven investment approach is common. Moreover, Switzerland is already home to several small but internationally well-known, specialist, sustainability-focused asset managers and intermediaries in areas as diverse as ESG mutual funds, impact investments in microfinance (Parashkevova and Meyer, 2015), development investments (SSF/CMF, 2016), alternative energies, and carbon credits trading.

There is great business potential in combining the strong international perception of the Swiss brand with a new flagship offering.

Implications for asset management sustainability strategies

Even though there are internationally successful niche players in Switzerland, the Swiss financial center as a whole is currently not a global leader in sustainability-oriented asset management. Credibly proposing sustainability as a new flagship offering would require not only a clear commitment from mainstream financial circles, but also considerable efforts in terms of capacity and knowledge building. It is clear that such a flagship offering would not be able to be carried by the currently active specialized niche players alone, but would need a broader foundation, with support from a wide variety of players and from mainstream industry associations representing the entire financial center.

Other financial centers are moving quickly and decisively in the direction of sustainability, sometimes with considerable government support. For instance, under the umbrella of London's Green Finance Initiative (City of London, 2016) and with strong support from the municipal governing body (HM Treasury, 2016), the City of London is trying to position itself as a center for green bonds. Also, as early as 2006, and with the Luxembourgian ministries of finance, sustainable development, infrastructure, and foreign affairs as founding members, the Luxembourg Fund Labelling Agency was created. The agency awards recognizable and credible labels to sustainable investment funds. Liechtenstein prominently promotes sustainability as a core principle of its financial market. Singapore is another case in point, where concerted effort by either the government or mainstream finance associations has, in terms of sustainability, moved the financial sector forward. Following criticism from the World Wide Fund for Nature (WWF), which labeled the country a laggard in ESG terms (WWF, 2015), the Association of Banks in Singapore (ABS) issued a set of guidelines aimed at guiding lenders to integrate ESG criteria into their risk assessment and lending processes (ABS, 2015). Also, in July 2016, the Singapore stock exchange announced that it will introduce mandatory sustainability reporting starting in 2018. Under the umbrella of Paris EUROPLACE, the organization that assembles, promotes, and develops the entire French financial industry, France launched—in June 2016—the Paris Green Financial Center, an initiative that seeks to place France at the forefront of sustainable finance.

Switzerland should evaluate whether imitating such strategies might make sense, putting Swiss-made sustainable asset management and financial services on the international map. The aforementioned examples show that governments can play a constructive role in galvanizing national efforts, doing more than simply handing out subsidies. Yet, based on this White Paper's prior analysis of policy, legal, and regulatory frameworks, it appears that the Swiss federal government is currently not prepared to play such a role.

The strong momentum currently present in international financial markets and institutions as they search for more public–private partner-

ship financing solutions around the COP21 agreement in the area of climate change and the financing of projects for achieving the SDGs (see, for instance, Ahmad and Kidney, 2016) provides substantial scope for product innovation. Financing and investment solutions are likely to provide substantial business opportunities and scope for product innovation, not only in asset and wealth management but also in financial engineering.

Similar to the country's wealth management sector, the Swiss asset management sector includes a broad range of independent advisors who recommend investment solutions to institutional investors. These advisors play a crucial role in transmitting information regarding sustainability-related concepts, strategies, and products. Yet, despite recent initiatives launched by SSF to increase the basic knowledge of advisors, the knowledge gap between specialized and mainstream advisors still seems to be high when it comes to sustainability-oriented investment solutions. Often, advisors continue to regard sustainability as a specialist, niche topic and do not propose such products to their clients. Advisors and financial sector participants feel uncomfortable with definitions of, and measurement issues regarding, sustainability in finance. Also, sustainability issues are sometimes perceived as being only of secondary importance in the current low interest rate environment, and are thus not discussed.

There is still a significant knowledge gap between specialized and mainstream advisors with regards to sustainability-oriented investment solutions.

Sustainable investments—opportunities, risks, barriers, and recommendations

The following table summarizes the opportunities, risks, and barriers of three different sustainability strategies (pure mainstream, entirely sustainability-focused, and hybrid) for the financial sector functions related to investments, private banking and wealth management, asset management, and the retail investment business.

Table 3: Opportunities and risks of, and barriers to, sustainability strategies relating to investments.

	Mainstream (no focus on sustainability)	**Partial focus on sustainability** (hybrid offering)	**Strong focus on sustainability** (full integration)
Opportunities	• No additional costs related to training and the implementation of a sustainability offering • Clear positioning • Well-established processes • Longer track record	• Increasingly strong demand from some client segments (HNWI and institutional clients; Millennials) • Low interest rate environment requires product innovations • Opportunity to target clients with diverse preferences • Availability of ESG-related information infrastructure increases fast (e.g., via Bloomberg); costs of providing ESG information are falling • Swiss pioneers in selected sustainable and impact-investment products • Dearth of sustainability-trained client advisors and wealth managers	• Early mover advantages • Consistent communication • Marketing tool • Increasingly strong demand from some client segments (HNWI and institutional clients; Millennials) • New strategy to compete in international markets • Scope for product innovation around COP21 (climate) and SDGs • Small country, flexibility of players, and short distances between financial institutions, policy makers, and market innovators allow for consultative change processes • Financial materiality
Risks	• Potential losses from ESG risks materializing financially • Potential loss of clients • Missing the moment to reorient might result in future litigation costs • Reputational risk of not considering ESG risks • Regulatory changes might come and require reporting on sustainability issues and integration of ESG issues	• Lose focus • No clear positioning • Additional cost of maintaining parallel structures and products • Other products offered might be considered as unsustainable by comparison • Risk of being perceived as green-washing • Conflicting and confusing message to clients	• Lose mainstream clients • Regulation guided by principles of self-regulation • Lack of knowledge among clients and financial advisors • Lack of definitions, standards, and transparency • Mind-set regarding performance and risk • Incentives of client advisors

Barriers	• None	• Knowledge gaps of asset/wealth managers, advisors, and clients due to: – Rapidly changing sustainable investment universe – Status quo bias/ sticky beliefs in fast changing market – Cultural and ideological barriers – Uncertainty about what sustainable finance means – Complexity of the issue – Measurability – Perception of a strong deviation from benchmark – Perception of a lack of a business case – Definitions/ classifications of different products	• Clients' resistance/ uncertainty with regard to investing in sustainable products • Specific limitations of selected sustainable products (such as liquidity and scalability constraints) tend to be generalized and taken as an argument against all such products • Misperception that there is no evidence for a positive relationship between financial and ESG performance of investments or of firms (misperception of missing business case) • Classification of certain types of sustainable investments (e.g., illiquid infrastructure investments or alternative investments) leading to higher capital requirements • Regulatory overhang marginalizes the topic • Low interest environment marginalizes the topic • UCITS compliance is given priority • Cost pressure makes incorporating ESG education and costly strategies unattractive • Organizational changes needed to incorporate sustainability into mainstream asset allocation

Source: the authors

Balancing the opportunities, risks, and barriers related to sustainable strategies, it becomes clear that for most Swiss institutions active in asset and wealth management the adoption of at least a partial focus on sustainability would be a valid strategy.

Institutional investors

Institutional asset owners (e.g., banks, public and private sector pension funds, insurance companies, and foundations) are currently under pressure to reorient their investment strategies and their services (e.g., pension or insurance coverage; Complementa, 2014) due to the low interest rate environment. Besides considering lower rated bonds and instruments,

a shift toward specific sustainable investment strategies, such as infrastructure or development investments, could also constitute a way of dealing with lower interest rates.

Compared to the Netherlands, Scandinavian countries, the UK, or the US, institutional investors in Switzerland, such as pension funds, account for a smaller share of the total volume of domestic sustainable investments (FNG/SSF, 2016) and are not firmly positioned as sustainability leaders. Nevertheless, the institutional share of all sustainable investments in the country is increasing steadily.

To date, it seems that many Swiss institutional investors prefer to focus on traditional assets. This preference is mainly driven by knowledge gaps, a lack of standardized information on selected sustainable products and strategies, and a perceived lack of low-cost, high-sustainability-impact products, as well as concerns about low liquidity and, sometimes, the scalability of sustainable investment products. For pension funds, their fiduciary duty represents an additional perception-related barrier to investing sustainably, and the still strongly ingrained misperception that all sustainable investment approaches systematically underperform is also holding back Swiss institutional investors from engaging in sustainable investment. Pension funds are also concerned about the allegedly high tracking errors involved in sustainability strategies, despite the fact that at least some of the most recently developed index-oriented strategies are actually characterized by relatively low tracking errors. In situations in which strategies need to reflect the preferences of the beneficiaries (e.g., public pension funds), light forms of sustainable investment (e.g., negative screening based on indexes with low tracking errors) are sometimes implemented. For certain investors, investment vehicles related to sustainability are classified as alternative assets, and thus have higher capital requirements. As a consequence, the share of the portfolio that can be allocated to such products is often restricted to a relatively small fraction and must compete with other alternative investment opportunities (e.g., hedge funds or private equity). Clearly, legislation that removes such barriers to sustainable investments (e.g., investment in sustainable infrastructure) could be useful. Last but not least, Switzerland, unlike certain other countries, does not offer fiscal incentives to facilitate sustainable investment. In contrast, the Green Funds Scheme in the Netherlands provides tax exemptions for investing in projects that are designated by the government to be environmentally sustainable (Hachigian, 2016).

Just like service providers, such as investment advisors and consultants, asset owners who pursue a mainstream investment approach are more common than those that pursue a partial or even a strongly focused sustainability approach. Overall, however, the proportion of Swiss pension funds adopting some form of ESG-related approach is increasing. The creation of an association of seven, mostly public, pension funds (SVVK – ASIR) with the objective of supporting member funds' responsible investment strategies is anecdotal evidence of this trend. Additional signs of this trend are documented in the first study on sustainable investments to include twenty of the largest Swiss pension funds (Hierzig, 2016). Similarly to pension funds, some leading insurance companies have strong sustainability policies in place or are exploring the need to incorporate material ESG risks into their asset liability management activities. In addition, an increasing number of foundations are attempting to meet their objectives not only via their project funding, but also thanks to their responsible and sustainable investment strategies, including impact investing (Sprecher et al., 2015).

Asset owners who pursue a partial or strongly focused sustainability approach are less common than those who pursue a mainstream investment approach.

Table 4: Opportunities and risks of, and barriers to, sustainability strategies for institutional investors.

	Mainstream/no focus on sustainability	Strong or partial focus on sustainability
Opportunities	• Low tracking error • No additional costs related to training and the implementation of a sustainability offering	• Strong branding potential • First mover advantages • Interesting investment opportunities in the low interest rate environment • Forward-looking, risk-oriented interpretation of fiduciary duty (pension funds) or insurance liabilities (insurance companies) • Holistic interpretation of purpose (foundations)
Risks	• Missing the moment to reorient might result in future costs • Difficulty to find investments in low interest rate environment • Reputational risk of not considering ESG risks	• Opposition from stakeholders (e.g. clients or beneficiaries) • Lack of definitions, standards, and transparency • Knowledge gaps of decision makers
Barriers	• None	• Regulation • Standard interpretation of fiduciary duty (pension funds) • Strict benchmarking requirements (pension funds) • Sustainable investments being classified as risky/a form of alternative assets (capital requirements) • Limitations of certain products (e.g., liquidity, size, or investment horizon) • Transparency with regards to risk , return, and product information • Lacking track record of certain products • High return targets when considering high-sustainability-impact strategies • Knowledge gaps (e.g., perception of strong deviation from benchmark; performance) • Advisors not proposing solutions • Lack of adequate derivative products • Consultancy agencies do not push sustainable products • Fear of being a first mover • Lack of sustainable products and strategies

Source: the authors

Table 4 summarizes the opportunities and risks of, and barriers to, institutional investors choosing sustainability strategies. Just as in the case of investment management functions, key strategies for overcoming investment barriers involve an improvement in basic education that would raise awareness of the long-term risks to assets and help institutional investors make informed decisions about appropriate strategies and investment approaches, and about the target portfolio share of sustainable investments. Regulatory changes regarding the classification of certain sustainable investment products might also lead to their more widespread adoption by asset owners.

Retail banking

The review of Swiss retail banking activities conducted for this paper shows that sustainability strategies are also present in the retail banking sector, but are perhaps less visible than in the private banking sector. Eurosif (2014) finds that, compared to other European countries, Switzerland's retail market in sustainable investments is of relatively high importance. While the share of pure retail (as opposed to private banking) investments placed in sustainable mandates or in sustainable products cannot be gauged, a review of products reveals a relatively large offering of sustainability-oriented retail investment products, in particular from certain retail-focused banks. There are signs that the demand for such products is increasing, and that the supply of product offerings has improved. These offerings include a range of exclusion, best-in-class, and impact investment products for small-scale investors. A number of Swiss retail banking divisions are already providing sustainability-related product offerings—for instance as distributors of sustainability-labeled mutual funds—or specific impact investments such as microfinance funds to retail investors. Retail clients interested in sustainability products might also be less focused on performance and thus be more inclined to invest in such products even if they might not have performed that well historically (e.g., solar or other thematic investments). When considering more traditional ESG products (e.g., best-in-class), performance track records commonly exist nowadays and tend to show little or no discernible differences to conventional products.

Still, the analysis carried out for this White Paper leaves the authors with the impression that the Swiss retail banking sector has considerable potential to scale up existing products and pilots—in particular when it comes to offering a broader variety of standardized, low-cost, and high-sustainability-impact products for retail investors—and to train retail client advisors, who still lack know-how and often do not feel comfortable offering sustainable products. There is also scope (in addition to the one existing specialized retail bank in Switzerland) to reposition retail-oriented banks in terms of sustainability, making their marketing more cost-effective by conveying a focused sustainability message as opposed to a message consisting of both sustainability and traditional products, which clients may find confusing. Providing explicit incentives to client advisors to sell sustainable products might also be an interesting strategy to pursue.

> The retail banking sector has considerable potential to scale up existing products and train retail client managers, who still lack know-how.

5.2. Lending

Retail banking

Some retail players have already launched or are launching sustainable products in the lending sphere. These include green mortgages and energy efficiency loans characterized by lower interest rates for new and officially certified low-energy-consumption buildings, as well as loan products for refurbishing existing retail real estate to satisfy stricter energy and energy efficiency standards. The authors' analysis reveals that the Swiss retail banking sector has

interesting opportunities to scale up such existing products and pilot schemes. Given that energy efficiency investments contribute significantly to preserving the value of residential real estate and that the vast majority of buildings in Switzerland are more than 40 years old, there seem to be broad opportunities to offer all sorts of energy efficiency-oriented financial services. Also, more generally oriented sustainability advice in the context of real estate transactions seems to be a promising area for product development.

As the vast majority of Swiss buildings are over 40 years old, there are broad opportunities to offer a wide range of energy efficiency-oriented financial services.

Corporate client business

Corporate client business—defined as banking services (including lending) provided by banks located in Switzerland to companies of all sizes based in Switzerland—predominantly involves micro-enterprises (fewer than 10 employees), followed in terms of share by small, then medium-sized, then large firms. The overarching sustainability issues of the corporate client lending business are similar enough across these different size segments for them to be considered jointly. Note that the focus is not on investment banking (e.g., securities underwriting) or project finance here, as these functions are not overly important for Swiss-based financial sector activities.

Sustainability issues are taken into consideration in the corporate client lending business in all market segments. The authors' review of the corporate lending activities of Swiss banks shows that banks integrate sustainability issues into their lending decisions by employing qualitative processes. Most often, this integration takes a general principles- and rules-based approach (e.g., avoid financing certain business activities or only do business if it respects pre-established guidelines).

In corporate client business with micro-enterprises, SMEs, and large corporations, banks are faced with sustainability questions mainly in their client onboarding and lending functions. While sustainability issues are of particular interest to medium-sized and large enterprises, in particular when these firms operate in developing countries, it appears that sustainability, both from an ESG risk and a demand perspective, is less of an issue in corporate client business carried out with micro- and smaller enterprises. Lenders should also apply certain criteria to avoid negative ESG outcomes and reduce default risk. Correspondingly, client demand from this segment for sustainability-oriented services is relatively low, mainly because these micro-enterprises have other priorities in terms of banking services (e.g., treasury, payment services, or payroll accounting). When sustainability is relevant for small firms and micro-enterprises, it is mainly in the context of energy efficiency projects and energy efficiency in the commercial real estate business.

Reputational and financial risk management seem to be the most important reasons for incorporating sustainability considerations into the lending business. Banks have processes in place (e.g., compliance) in order to avoid being involved in the financing of controversial projects at the local, regional, national, and international levels, mainly because financing controversial projects can translate into financial losses for the bank. In addition, sustainability criteria are also considered in the belief that such consideration enables better credit risk management by avoiding economic risks, such as contaminated land, hazardous waste sites, etc. Extended lender liability is also an issue given that financing harmful activities can result in direct penalties being levied on the financing bank.

While risk-avoidance is a predominant theme when it comes to sustainability in lending, there are also opportunities for taking a more positive approach to integrating sustainability into

lending. For instance, a forward-looking micro-enterprise or SME-focused bank that wants to be ahead of the curve might think about developing specific products for a market segment in which sustainability penetration is not yet very deep. The table below summarizes some of the opportunities, risks, barriers, and recommendations relevant to sustainability in lending.

Table 5 summarizes the opportunities, risks, and barriers related to integrating sustainability aspects into bank lending. Ignoring sustainability seems to be a strategy that would ensure that opportunities would be missed and that considerable risks would have to be borne.

Table 5: Opportunities and risks of, and barriers to, sustainability strategies in lending.

	Mainstream/no focus on sustainability	**Partial focus on sustainability**	**Strong focus on sustainability**
Opportunities	• Lower screening effort	• Marketing • Interesting investment opportunities in the low interest rate environment • Partial avoidance of costs incurred through reputational risks/the potential for litigation, and a reduction of default by clients thanks to sustainability (long-term risk reduction)	• Attract clients, marketing through a unique selling point; clear positioning as a sustainable bank; cross-selling opportunities • First mover advantages • Risk management: practice centralized risk management that does not separate ESG risk from more traditional risk • Avoidance of defaults and costs incurred through reputational risks/the potential for litigation, and a reduction of default by clients due to sustainability (long-term risk reduction) • Develop specialist know-how • Secure potential loan guarantees from private or publicly funded vehicles • Attract new clients; finance transformation toward green/ energy-efficient housing; interest rates subsidies for energy efficiency • Contribute significantly to financing the transformation toward a sustainable economy

Risks	• Reputational risk incurred by financing unsustainable activities • Financial risks—i.e., projects becoming economically unviable or financing property that might decrease in value due to tighter environmental regulation (or degradation) • Strategic risk incurred by missing the moment • Litigation risks or lender liability risk, e.g., when a debtor causes environmental damage or commits human rights violations • Keeping or onboarding risky clients	• Increased screening effort • Not included in overall risk management, so lender is still exposed to lender liability and reputation risk • Lack of profile leading to low market share	• Increased screening effort; availability of appropriate measurements; loss of mainstream clients; decreased revenues • Traditional credit ratings are only just starting to incorporate sustainability risks
Barriers	• None	• Regulation; missing out on potentially existing subsidies • Fiduciary duty (pension funds) • Availability and validity of sustainability screening measures • Cost of setting up know-how and processes	• Sustainability performance of a loan book not valued by regulators • Regulatory uncertainties in some markets add to risks (e.g., energy sectors)

Source: the authors

6. Conclusion and Outlook

This White Paper's review of the current trends with respect to sustainability in the Swiss financial sector leads to the conclusion that all large players are dealing with sustainable finance, at least to a minimum degree. Business as usual is no longer a valid option for most players, at least not in the medium to long term. This development is mainly driven by the fast pace at which sustainable finance has developed internationally over the last three to five years and by the anticipation of higher demand for sustainable finance products in the future, mainly due to generational differences in preferences and changing societal expectations of finance.

Financial sector players can currently choose between different implementation strategies, which vary mainly in the extent to which sustainability is incorporated into the core activities of the financial institution itself. A first option is full integration of sustainability into the entirety of the institution's investment and lending activities, which means moving away from the still commonly practiced compartmentalized or niche approach to sustainable finance. This option makes most sense as an early-mover strategy, and is being adopted by selected banks and advisors in wealth management/private banking, but also in retail banking, and in asset management. The alternative option, a partial incorporation of sustainability themes into product offerings, is the least institutions should do. Such a hybrid strategy is currently observable at the majority of larger banks and in the practices of certain asset managers and an increasing number of advisors. The authors recommend that institutions commit to one or the other strategy and ensure clear communication of their decision. For this to happen, there is an urgent need for a credible commitment to, and stronger support for, sustainable finance from the upper echelons of the Swiss financial sector (i.e., board and executive level). Such executive-level sustainability championing is a necessary condition for legitimizing the topic at all hierarchical levels. Thus, the sustainable finance-related education of senior management, board members, and (chief) executives is necessary to advance capacity building and innovation within institutions and foster cultural change.

In the core competency area of the Swiss financial sector too—that is to say, in (cross-border) wealth management, the lack of internal knowledge on sustainability outside the existing specialist teams seems to be one of the main challenges. Knowledge and, sometimes, cultural gaps are particularly strong, and there appears to be little common, shared knowledge on sustainable finance, in particular with regards to the concept itself, the existing diversity of products and strategies, established results regarding financial performance, and measurability, as well as standardization and standard-setting initiatives. Client relationship managers at different levels (retail, HNWI, and institutional clients) are mentioned as common bottleneck. Potential reasons for these knowledge gaps are the fast pace of innovation in the sustainable finance space (keeping up with innovation), sticky beliefs, and—perhaps—generational and ideological barriers. The authors recommend the sustainable finance training and development of individuals occupying key, mainstream positions. Alternatively,

targeted executive education might also be a way of closing knowledge gaps. A further recommendation is that all types of financial institutions build more in-house expertise with regard to sustainability-oriented products and analysis. In doing so, it is important to mainstream such sustainability know-how within the organization and to move beyond a compartmentalized or silo-based organizational structure in which sustainability knowledge is concentrated in small teams of experts. This implies also the efficient and effective operational integration of expert sustainability teams into the core divisions of each institution.

The Swiss financial sector as a whole seems to be currently adopting a look-and-see-strategy, unlike other financial centers, which are moving faster to position themselves as sustainable finance hubs, sometimes with explicit support from their respective governments. In Switzerland, meanwhile, the government and public sector is observing this development quite carefully but refraining from taking concrete action. The authors recommend a careful examination of whether specific policy and regulatory measures found elsewhere—such as, for instance, reducing investment barriers for pension funds, or an official endorsement of sustainability as a core principle of the Swiss financial market place—could be adapted and applied by Swiss policy makers. The main impetus must, however, come from the core of the financial sector itself. Yet, there does not seem to be a concerted effort or even interest in mainstream finance circles to propose sustainability-oriented banking or wealth and asset management as a new Swiss flagship product offering. While Switzerland is home to internationally successful niche players and pioneers (e.g., in microfinance and other development investments, ESG index construction, or rating services), and to specialized associations like SSF or SFG, which are increasingly making themselves heard, the established industry associations (e.g., the SBA, the SFAMA, or the SAAM) are remarkably silent on the topic of sustainability, suggesting that they do not consider it a priority. The authors recommend that framework conditions for sustainable finance be made a priority agenda item and that these associations consider how to integrate the topic into their (self-regulatory) activities in order to avoid the Swiss financial sector falling behind even further in comparison to its overseas competitors. Given the lack of a financial center-wide strategy, it is further recommended that each financial market player carefully and individually decide on the speed and the extent to which it will seek to incorporate sustainability in the short and medium term.

Internationally, new opportunities for product innovations both in investment banking and asset and wealth management abound (in particular given policy developments around the SDGs and climate-related finance). Given Switzerland's reputation, Swiss wealth and asset management specialists should move into this area more decisively. The authors believe that a concerted effort, and an endorsement in the form of a new *Finanzplatzinitative* supported by the entire Swiss financial sector, are necessary for Switzerland to credibly offer a broad and world-class product range in the field of sustainable finance.

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Appendix

Table 6: Sustainability indexes for different investment strategies.

SRI strategy	Index	Description	For more information
Negative/ exclusionary screening	MSCI ACWI Select Global Norms and Criteria Index	Global stock market index that excludes firms based on (i) violations of international norms (human rights and working conditions) and (ii) involvement in controversial business.	http://www.msci.com/eqb/methodology/meth_docs/MSCI_ACWI_Select_Global_Norms_and_Criteria_Index_May16.pdf
Combination of positive- and negative-values-based screening	MSCI Global Socially Responsible Index	Excludes firms that sell goods and services with a high negative social or environmental impact (negative screening) and includes predominantly companies with high ESG ratings relative to their sector peers (best-in-class).	http://www.msci.com/eqb/methodology/meth_docs/MSCI_Global_SRI_Methodology_May_2016.pdf
Best-in-class	Dow Jones Sustainability Index Family	Includes leading firms in terms of corporate sustainability from global, regional, and country benchmark indexes.	http://www.sustainability-indices.com/index-family-overview/djsi-family-overview/index.jsp
Positive screening	Barclays MSCI US Credit ESG Weighted Index	Composed of fixed-rate, investment-grade corporate bonds, whose weights are based on ESG ratings.	https://www.msci.com/resources/pdfs/Barclays%20MSCI%20ESG%20Fixed%20Income%20Indices%20-%20FINAL.pdf
Integration	MSCI ACWI Low Carbon Target Index	Broad, global stock market index that includes predominantly companies with low carbon emissions relative to sales, and underrepresents companies with high potential carbon emissions per dollar of market capitalization.	https://www.msci.com/eqb/methodology/meth_docs/MSCI_Low_Carbon_Target_Indexes_Methodology.pdf
Impact investing	MSCI ACWI Sustainable Impact Index	Comprises publicly listed companies that derive at least half of their revenues from products and services that address sustainability challenges, as defined in the SDGs.	https://www.msci.com/eqb/methodology/meth_docs/MSCI_Sustainable_Impact_Index_May2016.pdf
Thematic investments	S&P Global Water Index	Provides exposure to companies active in the water business.	http://us.spindices.com/indices/equity/sp-global-water-index
Thematic investments	S&P Global Clean Energy Index	Made up of companies active in the clean energy field.	http://us.spindices.com/indices/equity/sp-global-clean-energy-index
Thematic investments	Barclays MSCI Green Bond Index	Provides a benchmark for fixed-income securities issued in order to fund projects with direct environmental benefits.	https://www.msci.com/resources/factsheets/Barclays_MSCI_Green_Bond_Index.pdf

Note: This table aims to provide a number of examples of existing indexes but does not claim to offer a complete picture.

Swiss Finance Institute

Swiss Finance Institute (SFI) strives for excellence in research and doctoral training, knowledge transfer, and continuing education in the fields of banking and finance, as befits Switzerland's international reputation as a leading financial center. Created in 2006 as a public–private partnership, SFI is a common initiative of the Swiss finance industry, leading Swiss universities, and the Swiss Confederation.

SFI Knowledge Center

The SFI Knowledge Center promotes and supports dialogue, information flow, and collaboration between academia and the financial services industry. The center performs an active intermediary role in gathering and disseminating financial knowledge, helping find solutions to current problems, and identifying new trends in banking and finance.

SFI White Papers

The SFI Knowledge Center publishes White Papers that give new stimulus to relevant topics, raise knowledge standards, and contribute to ongoing discussions or initiate debate on matters of particular relevance to the Swiss financial services industry.

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Walchestr. 9, CH-8006 Zürich, T +41 44 254 30 80, KnowledgeCenter@sfi.ch, www.sfi.ch/whitepaper