



Sustainability in the Swiss retail banking sector

WWF rating of the Swiss retail banking sector 2016/2017



Introduction by the Foundation Board



Josef Bieri

2017 represents a good time to publish the first edition of the WWF rating of the Swiss retail banking sector.

Around two years ago, the Millennium Development Goals (MDGs) of the United Nations expired and were replaced by the Sustainable Development Goals (SDGs). The SDGs are universal and address the social, environmental and economic dimensions of sustainable development in a comprehensive and extensive manner. They form the core element of the ambitious and transformative 2030 Agenda for Sustainable Development.

Furthermore, with the foundation of the G20 Green Finance Study Group last year, financial-policy makers have for the first time come together to address the role of financing in relation to environmental aspects and broader sustainability issues. Banking supervisory authorities and regulatory authorities around the world are showing a growing awareness of the materiality of sustainability issues, as demonstrated, for example, by the Task Force on Climate-related Financial Disclosures (TCFD), which was set up by the Financial Stability Board (FSB) under the leadership of Mark J. Carney.

The Swiss banking sector, with its important leverage effect, appears to have entered a new phase in terms of its commitment to sustainability issues. Despite this momentum, the following question seems more decisive than ever: “What does a sustainable bank look like, and what shape does its obligation to contribute to sustainable development take?”

The following pages will provide information and a first-time overview of the sustainability level of Switzerland’s 15 biggest retail banks. In their role as capital managers, these retail banks serve the majority of the Swiss population and the country’s SMEs. This is a position of great responsibility that provides those within the sector the opportunity to consciously generate a positive impact on society, nature and the economy – something that is essential if broader development objectives (i.e. the SDGs) are to be achieved. Clients need to actively demand the realisation of such effects.

With this study, we hope to provide decision-makers in the local banking industry and their clients in equal measure with support when it comes to demanding and promoting sustainable banking practices – guided by the overall objective of together shaping a future in which people and nature can coexist in harmony.

Josef Bieri

Member of the Foundation Board of WWF Switzerland

Thank you

WWF Switzerland and Inrate would like to thank all participating retail banks for the time and work they have dedicated to this study. We hope that it was a beneficial experience and that the result will contribute to an increased level of focus on sustainability, the strategic anchoring of sustainability issues within banking processes and an improvement in the sustainability impact of the operational banking business of the participating retail banks. We very much look forward to continuing this dialogue and cooperating further in future.

Furthermore, we would like to express our gratitude to our expert committee, which contributed its time and provided the research project team with advice and active support. Details regarding company or organisation affiliations are provided purely for information purposes; the group members participated in a personal capacity. The views expressed in this document are those of WWF Switzerland and Inrate and do not necessarily reflect the opinions of the expert committee:

- Oliver Oehri (Executive Director and Founding Partner, CSSP – Center for Social and Sustainable Products AG)
- Daniel Frauenfelder (CEO and Founder, Frauenfelder – TripleS)

We would also like to thank the following institutions, who provided support with well-informed text contributions:

- Alternative Bank Switzerland
- Swiss Sustainable Finance



Introduction by the CEO



Thomas Vellacott

Traditional banking business is one of the oldest industries in the world and is essential for an economy, as financial intermediaries keep the economic cycle going and help to shape its course. Banks therefore have a large influence on the use of funds. Through the granting of loans and investments in various economic sectors, they help to guide the development and sustainability impact of these industries. In Switzerland, in particular, the banking sector has made a significant contribution to social prosperity and economic growth.

The economic importance of the retail banking sector is underlined by its contribution of 13% (as at 2015) to Switzerland's gross domestic product. This fact, however, only illustrates one side of the sector's importance, namely the relatively constant economic contribution made by the retail banking business model over the years. It does not reveal much about environmental and social sustainability, i.e. the sustainability impact of the individual Swiss retail banks and the retail banking sector as a whole. Furthermore, it sheds little light on how adept individual banks are at utilising their core competencies to promote the sustainable development of the economy, society and nature. A look at the rating established within this study shows that, in performing their role, the retail banks have not (yet) fully geared their activities towards these considerations.

WWF Switzerland expects from a retail bank that it works to establish a permanently fair balance between environmental and social interests and the economic interests of its stakeholders, and that this balance is continually promoted. In a constantly changing environment, Swiss retail banks should serve society as an intergenerational partner. According to our opinion, this challenging task forms the basis for a healthy banking system and at the same time is one of the fundamental requirements for sustainable future development.

To ensure the sustainable development of the Swiss retail banking sector, it will be crucial that financial institutions establish sustainability-based business models at the highest level, i.e. in their business policies, and that these business models are systematically observed in their day-to-day activities. This means that banks not only manage the economic risks and opportunities that have been prioritised to date, but also ensure the mandatory implementation of environmental and social standards in conducting their core business. It will be possible to ensure comprehensive risk management this way, while at the same time allowing for future opportunities to be exploited for society and the environment in a fiduciary capacity.

This will also require that local retail banks expand their product range and service offering in a targeted manner, allowing their clients to take account of sustainability criteria when conducting all of their banking transactions. Only in this way can it be ensured that Swiss retail banks make a relevant contribution to the development of a sustainable economy.

A look back into the past can act as a source of inspiration here. In 1856, it was the railway pioneer Alfred Escher who, together with other like-minded individuals, founded Schweizerische Kreditanstalt (now: Credit Suisse) in order to push forward with the expansion of the Swiss railway network. His ambitious plans exceeded the federal budget at that time by far. In establishing the aforementioned bank, he was able to secure the necessary financing. Alfred Escher's approach was extremely unconventional and continues to characterise Switzerland's banking landscape and our infrastructure to this day. It is such events that highlight the unbelievable potential that the financial sector offers for facilitating forward-looking development. This potential needs to be tapped again.

On this note, WWF Switzerland would like to wish you an enjoyable read. Establishing sustainability as a cornerstone of the banking business has never been more important than it is now.

Thomas Vellacott, CEO of WWF Switzerland

Key statements

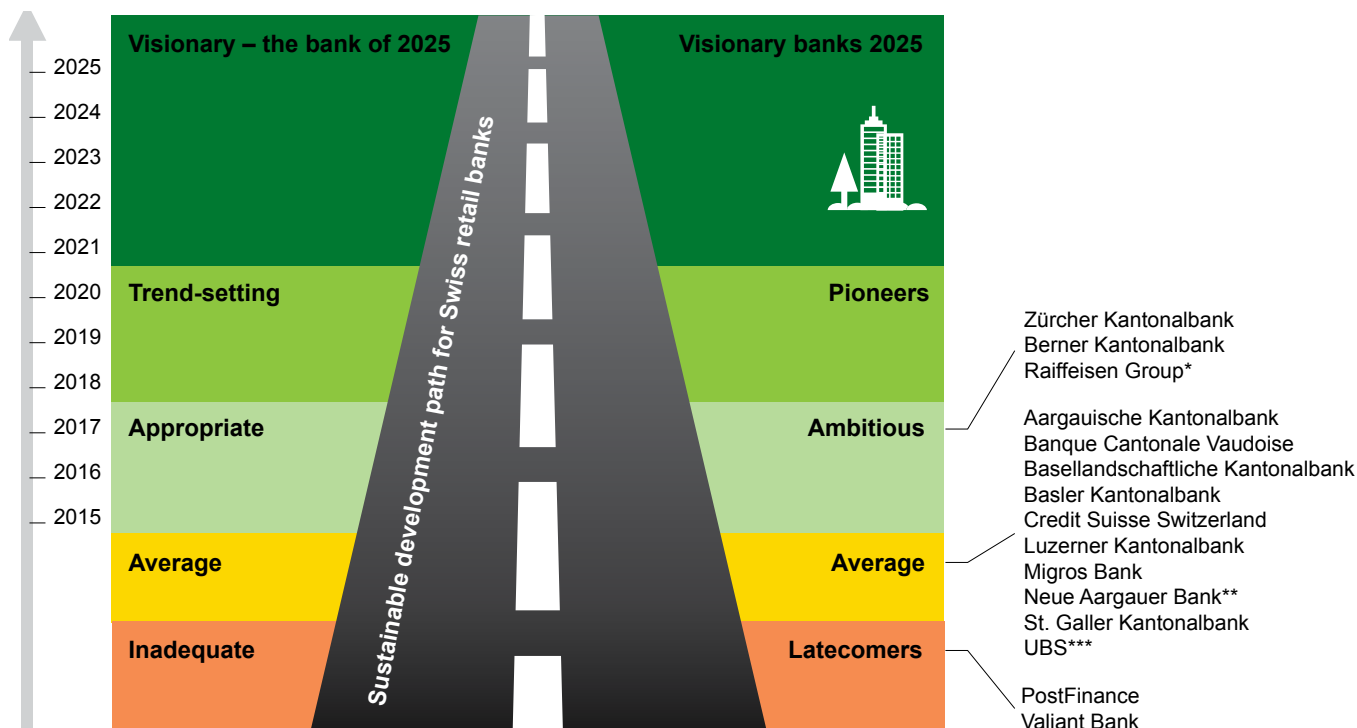
Overall result

- The rating includes Switzerland’s 15 biggest retail banks (according to the balance sheet total of the 2015 financial year). Some 14 financial institutions actively participated in the survey; one bank was primarily assessed passively on the basis of publicly accessible information.
- Three retail banks – Berner Kantonalbank, the Raiffeisen Group* and Zürcher Kantonalbank – were given an overall rating of “Appropriate”, and are thus on course as regards the development path for retail banks required by WWF Switzerland. However, none of the reviewed banks were deemed to be “Trend-setting” or “Visionary”.

Corporate governance

- Environmental and sustainability considerations are relatively well established in the corporate governance structures of the reviewed banks: Seven banks were identified as “Average”, seven as “Appropriate” and one – Zürcher Kantonalbank – as “Trend-setting”. No bank was deemed to be “Below average”.
- At many retail banks, the focus is placed on operational ecology. Far more relevant in terms of sustainability, however, is their core business, i.e. the sectors and activities into which funds flow and whether they are harmful to the environment or environmentally friendly. Only a few banks have identified this as a central consideration and anchored it in their corporate governance structures accordingly.
- The political commitment of the retail banks towards establishing more sustainable framework conditions is rated as “Average” at seven retail banks and “Appropriate” at eight.

Sustainable development path for Swiss retail banks



Source: WWF Switzerland/Inrate, 2017

* The rating of the Raiffeisen Group focuses on the retail banking activities of the Raiffeisen banks and Raiffeisen Switzerland Cooperative.

** This bank did not complete part of the survey questionnaire, meaning that some of the criteria could only be assessed on the basis of publicly available information.

*** The rating of UBS focuses on the retail banking business of the Personal & Corporate Banking business division in Switzerland.

Savings, investments and pension provision

- Compared to their corporate governance structures, the sustainability practices of most retail banks are not very well developed when it comes to savings, investments and pension provision.
- Until now, there has been almost no systematic application of sustainability considerations for savings accounts. Among the 15 retail banks reviewed, only Zürcher Kantonalbank currently offers an “Appropriate” savings product. This product aims to have a positive environmental impact and ensures a high degree of transparency as regards the use of funds.
- Sustainable investment and pillar 3a/b pension products in Switzerland have a long-standing tradition, but the market for these products remains relatively underdeveloped.
- Sustainable investment and pillar 3a/b pension products still are niche offerings at most banks. Only at a few pioneering institutions do these products account for a higher share of assets under management, especially at the Raiffeisen Group (54% of investment products and 92% of pillar 3a/b pension products are sustainable).
- The level of transparency as regards the overall sustainability impact of the assets under management in the retail sector is largely unsatisfactory. Only one institution – the Raiffeisen Group – assesses sustainability effects along its entire value chain and uses this analysis as a basis for the selection of financial securities for its sustainable investment products. None of the surveyed retail banks communicates details on overall impact at product level.²
- The effectiveness of most sustainable investment products is limited, i.e. the sustainable products only make a limited or even minimal contribution to achieving greater sustainability. Positive exceptions in this regard are Migros Bank and Banque Cantonale Vaudoise (both “Trend-setting” in terms of the effectiveness of their sustainable investment and pension products) and the Raiffeisen Group (deemed to be “Visionary” in terms of effectiveness). A major shortcoming continues to be the lack of reliable standards for sustainable investment and pension products in the retail banking sector.

Loans and financing

- The Swiss retail banks are still not very advanced overall when it comes to systematically incorporating environmental considerations when granting loans and financing. Only two banks – Credit Suisse (Switzerland) and UBS – are deemed to be “Appropriate”.
- In the area of environmentally friendly credit products, some of the retail banks currently only offer two categories: eco mortgages and occasional innovative products in the transport sector. These are purely niche products and account for a minimal share of the total financing volume (less than 5%).
- Environmental financing risks are not always managed systematically. Nevertheless, the environmental risks associated with corporate loans are addressed in a relatively systematic manner at 6 retail banks, while this is also true for mortgages at 10 retail banks. At the time of the study, a minority of banks did not yet address environmental risks at all, and other banks only did so on a rather unsystematic basis. With just very few exceptions, environmental risks are solely assessed from a qualitative perspective in the form of reputational risks.
- In terms of the overall management of environmental credit and mortgage risks, Swiss retail banks are in most cases still at a fledgling stage, with there being only a few exceptions – in particular UBS, which comes out ahead of Berner Kantonalbank and Credit Suisse (Switzerland). This all-in-all rather hesitant approach adopted when it comes to the handling of environmental lending and financing risks poses various potential risks for the retail banks and the financial system as a whole.

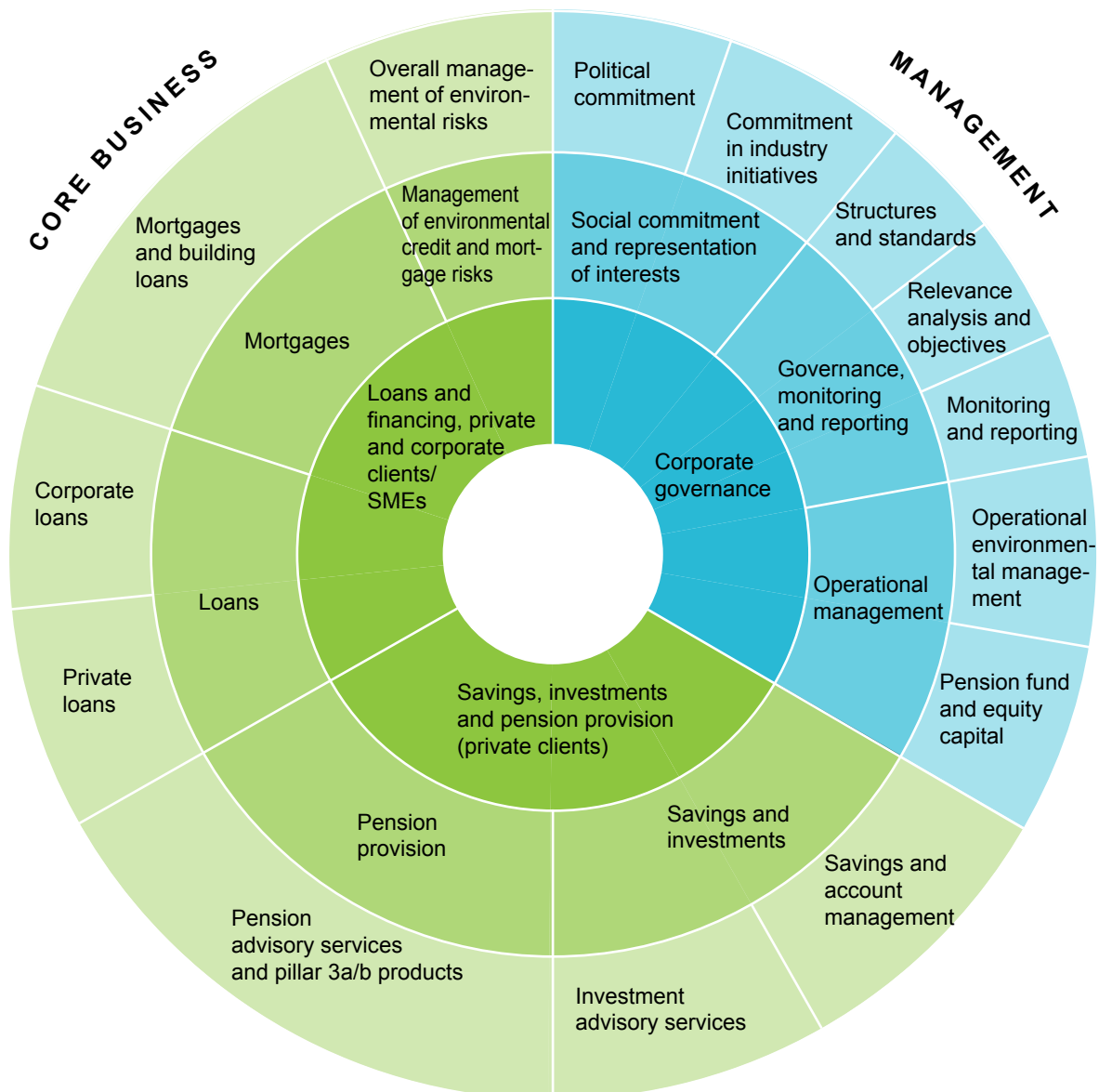
Summary

A Rating methodology

The *WWF rating of the Swiss retail banking sector 2016/2017* assesses the overall sustainability impact of Switzerland's 15 biggest retail banks (according to the balance sheet total). Emphasis is primarily placed on the environmental impact and, in part, also on the social impact of the financial institutions, i.e. on their overall sustainability impact.

Swiss retail banks chiefly focus on the traditional interest margin business with mortgage and corporate loans. This is supplemented by account management services as well as the management of the savings, investment and pension assets of clients and the provision of payment services (e.g. transactions). The rating study thus focuses on the assessment of the aforementioned primary business activities (core business) as well as on the retail banks' corporate governance and any resulting overall sustainability impact.

Areas covered by the WWF rating of the Swiss retail banking sector



Source: WWF Switzerland/Inrate, 2017

Retail bank classification categories

Based on the rating results, the retail banks were assigned to five classification categories: visionary banks 2025, pioneers, ambitious, average and latecomers/non-disclosers:

- **Visionaries:** A visionary retail bank observes a systematically sustainable corporate strategy and therefore has a long-term, intergenerational time horizon in view. It attempts to guide its financial flows towards sustainable activities. In addition, it endeavours – to the best of its ability – to influence the behaviour of companies and borrowers in such a way that they act more sustainably.
- **Pioneers:** Pioneers view sustainability as an important corporate goal alongside economic objectives (triple bottom line). They work actively to improve their sustainability impact and have achieved already some successes in this regard. They move forward boldly in individual areas and develop innovative solutions. Pioneers offer their clients a relatively broad offering of sustainable finance products and actively promote them. However, they have still not yet systematically integrated relevant sustainability considerations in their daily mainstream business activities – the so-called environmental, social and governance (ESG) factors.
- **Ambitious:** The Ambitious have recognised that the consideration of ESG factors offers economic opportunities and is a suitable means of minimising risk. They offer individual niche products in the area of sustainability without promoting innovations themselves. Their range of sustainable products does not cover all product areas.






- **Average:** Retail banks that find themselves in the average have integrated individual ESG factors, as they have recognised that they are of short-term economic relevance and therefore are also relevant for maximising shareholder value. They consequently adopt a rather defensive approach.

- **Latecomers/non-disclosers:** ESG factors hardly appear on the radar of latecomers; their business policy is geared towards purely financial factors. They only respond to sustainability issues if they are forced to by stakeholder groups such as NGOs or sustainability-conscious clients. Non-disclosing retail banks do not provide any information on whether they take ESG factors into account or not. We believe it to be relatively likely that they therefore do not take account of environmental and sustainability issues, or do so at a very limited level. An initial step for non-disclosing banks would be to establish the required level of transparency in order to achieve gradual improvements on the basis of such an appraisal.

Assessment categories for the rating criteria

The rating was based on a set of 34 individual criteria. In line with the five aforementioned classification categories, a score of between a maximum of 5 and a minimum of 1 was possible for each criterion. Generally speaking, the maximum score of 5 denotes a situation that WWF Switzerland views as desirable and achievable for a retail bank by 2025 from a comprehensive sustainability perspective. Overall, the green assessment categories – “Visionary – the bank of 2025” (5), “Trend-setting” (4) and “Appropriate” (3) – represent “Above average” scores.

Assessment categories and classification categories of the WWF rating of the Swiss retail banking sector

Colour codes	Assessment categories	Classification categories
	5 Visionary – the bank of 2025	Visionary banks 2025
	4 Trend-setting	Above average Pioneers
	3 Appropriate	Ambitious
	2 Average	Average/ Average
	1 Inadequate/non-disclosing	Below average Latecomers/non-disclosers

Source: WWF Switzerland/Inrate, 2017

B Rating results

Overview of rating results

Overall, three retail banks – Berner Kantonalbank, the Raiffeisen Group and Zürcher Kantonalbank – were classified as “Ambitious”, and therefore deemed to be “Above average”. Ten banks find themselves classified as “Average”, and two retail banks were identified as “Latecomers” and therefore as “Below average”.

Classification categories and results of the WWF rating of the Swiss retail banking sector

Visionary banks 2025		
Pioneers		
Ambitious	Berner Kantonalbank Raiffeisen Group* Zürcher Kantonalbank	
Average	Aargauische Kantonalbank Banque Cantonale Vaudoise Basellandschaftliche Kantonalbank Basler Kantonalbank Credit Suisse (Switzerland)	Luzerner Kantonalbank Migros Bank Neue Aargauer Bank** St. Galler Kantonalbank UBS***
Latecomers	PostFinance Valiant Bank	Non-disclosers

Source: WWF Switzerland/Inrate, 2017

* The rating of the Raiffeisen Group focuses on the retail banking activities of the Raiffeisen banks and Raiffeisen Switzerland Cooperative.

** This bank did not complete part of the survey questionnaire, meaning that some of the criteria could only be assessed on the basis of publicly available information.

*** The rating of UBS focuses on the retail banking business of the Personal & Corporate Banking business division in Switzerland.

The following table provides a summary of the results based on the survey's individual criteria.

Rating results of retail banks by sub-area and overall

	Corporate governance			Savings, investments and pension provision		Loans and financing			Overall result
	Social commitment and representation of interests	Governance, monitoring and reporting	Operational management	Savings and investments	Pension provision	Loans	Mortgages	Management of environmental credit and mortgage risks	
Aargauische Kantonalbank (AKB)	Green	Green	Green	Yellow	Yellow	Red	Red	Red	Yellow
Banque Cantonale Vaudoise (BCV)	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow
Basellandschaftliche Kantonalbank (BLKB)	Green	Green	Yellow	Green	Green	Yellow	Yellow	Red	Yellow
Basler Kantonalbank (BKB)	Green	Green	Yellow	Yellow	Yellow	Red	Yellow	Red	Yellow
Berner Kantonalbank (BEKB)	Green	Green	Green	Yellow	Yellow	Green	Green	Green	Green
Credit Suisse (Switzerland) (CS)	Green	Green	Green	Yellow	Red	Yellow	Yellow	Green	Yellow
Luzerner Kantonalbank (LUKB)	Green	Yellow	Yellow	Red	Red	Red	Yellow	Red	Yellow
Migros Bank (MB)	Green	Yellow	Green	Yellow	Green	Yellow	Yellow	Red	Yellow
Neue Aargauer Bank (NAB)*	Yellow	Yellow	Green	Grey	Grey	Grey	Yellow	Grey	Yellow
PostFinance (PostFinance)	Yellow	Red	Green	Red	Red	Red	Red	Red	Red
Raiffeisen Group** (Raiffeisen)	Green	Green	Green	Green	Green	Yellow	Yellow	Red	Green
St. Galler Kantonalbank (SGKB)	Yellow	Yellow	Yellow	Red	Red	Red	Yellow	Yellow	Yellow
UBS*** (UBS)	Green	Green	Green	Yellow	Red	Green	Yellow	Green	Yellow
Valiant Bank (Valiant)	Yellow	Yellow	Yellow	Red	Red	Red	Red	Red	Red
Zürcher Kantonalbank (ZKB)	Green	Green	Green	Green	Green	Yellow	Green	Red	Green

Source: WWF Switzerland/Inrate, 2017

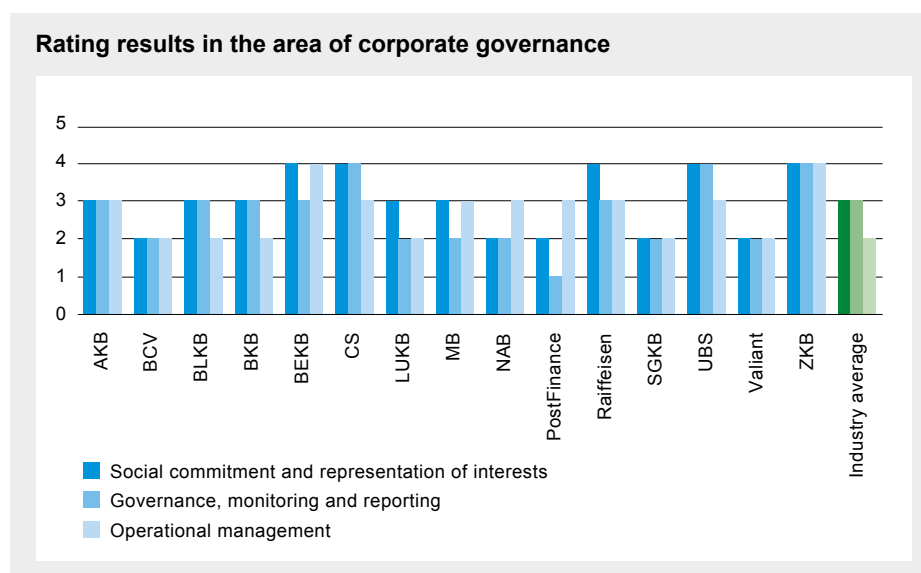
* This bank did not complete part of the survey questionnaire, meaning that some of the criteria could only be assessed on the basis of publicly available information.

** The rating of the Raiffeisen Group focuses on the retail banking activities of the Raiffeisen banks and Raiffeisen Switzerland Cooperative.

*** The rating of UBS focuses on the retail banking business of the Personal & Corporate Banking business division in Switzerland.

Corporate governance

Environmental and sustainability considerations are relatively well established in the corporate governance structures of the reviewed banks: For half of the retail banks, their corporate governance is deemed to be at least “Appropriate”, while a rating of “Average” is assigned to the other half. Upon closer inspection, however, it becomes clear that corporate governance generally focuses primarily on issues relating to operational ecology, i.e. on the saving of energy and resources at the banks themselves. However, far greater leverage lies in the banking institutions’ core business, i.e. in the question of which activities and sectors they ultimately finance and thus support, and whether these are particularly harmful to the environment or environmentally friendly. To date, only few financial institutions have recognised this lever as pivotal and adjusted their corporate governance and strategic decisions accordingly. The sustainability practices in the core business of most retail banks are thus not yet very well developed.



Results are rounded to whole values.

Source: WWF Switzerland/Inrate, 2017

For many aspects in the area of corporate governance, the reviewed Swiss retail banks gained a rating of “Appropriate”: the integration of environmental protection and sustainability within their own corporate governance structures, the establishment of (ideally certified) environmental management systems, the reduction of energy consumption and greenhouse gas emissions by the banks themselves and their commitment in industry initiatives and associations for which sustainability or environmental protection is explicitly stated as a (sub-)goal.

The reviewed retail banks were barely “Above average” when it came to identifying issues relevant to them in terms of sustainability and, on this basis, to identifying specific measurable objectives that are as quantitative as possible. Not all of the banks have yet recognised that the sustainability impact of their financial services and products are a key factor in allowing them to become more sustainable, and only few have set themselves qualitative or even specific quantitative objectives in this regard. The banks were also slightly “Above average” as regards their political commitment to furthering sustainability-promoting and environmentally friendly framework conditions in Switzerland.

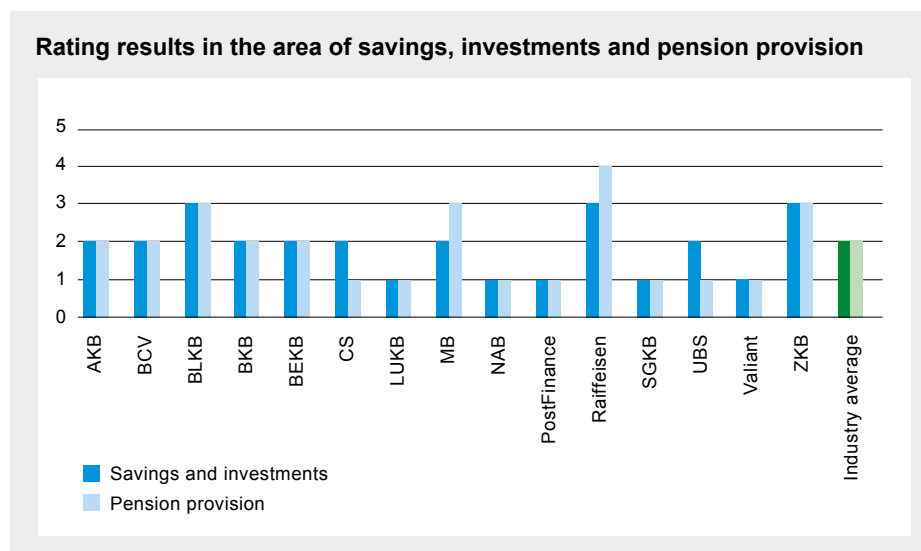
It is interesting to note that the banks were only assigned a rating of “Average” in connection with the investment of their own pension fund assets and equity capital. This may be due to the fact that these issues are generally not made visible externally to stakeholder groups and are therefore viewed within the respective banks as less relevant than the “traditional” issues relating to operational ecology mentioned above or environmentally friendly/sustainable investment products (see below).

Savings, investments and pension provision

Until now, there has been almost no systematic application of sustainability considerations for **savings accounts**. Most banks were assigned a rating of “Below average”, as they did not possess any sustainability and environmental guidelines in the area of savings accounts and therefore did not take account of sustainability and environmental considerations. In principle, however, savings products represent relevant levers for generating greater sustainability within the banking system.

A real opportunity lies in establishing greater product-related transparency. This would allow banks to communicate the environmentally relevant and sustainability-related activities and sectors into which the deposited funds from the various savings segments flow within the framework of their lending activities. When selecting a savings product, clients could thus purposefully select a more sustainable solution. Among the 15 retail banks reviewed, only one savings product from Zürcher Kantonalbank was assigned a rating of “Appropriate”. This product aims to have a positive effect on the environment and also ensures a certain level of transparency as regards the use of savings deposits.

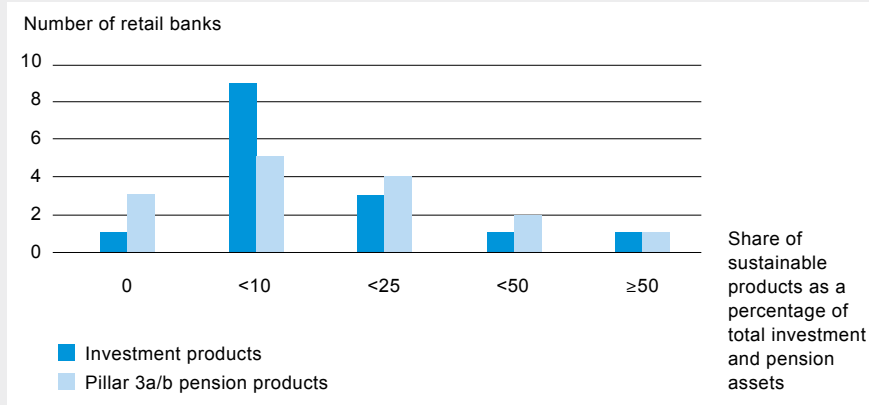
In contrast to savings products, sustainability has a long-standing tradition in Switzerland in connection with **investment and pillar 3a/b pension products**. Nevertheless, the market for sustainable investment and pillar 3a/b pension products remains relatively underdeveloped. At most retail banks, sustainable products are pure niche offerings and therefore make up only a very minor share of total assets under management. Some banks even still find themselves at a fledgling stage. There are, however, some pioneers – in particular the Raiffeisen Group, which comes out ahead of Migros Bank and Banque Cantonale Vaudoise – where the sustainable investment and



Results are rounded to whole values.

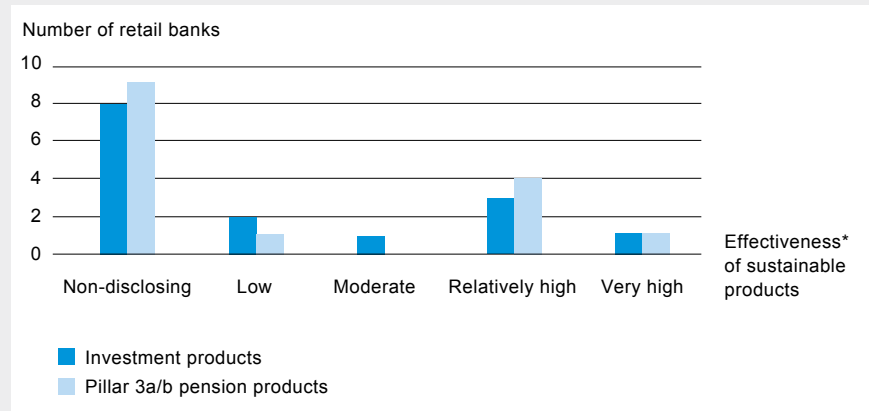
Source: WWF Switzerland/Inrate, 2017

Share of investment and pension assets in 2015 accounted for by sustainable investment and pillar 3a/b pension products



Source: WWF Switzerland/Inrate, 2017

Effectiveness* of sustainable investment and pillar 3a/b pension products



Source: WWF Switzerland/Inrate, 2017

* The effectiveness of sustainable investment products denotes the suitability of the underlying sustainable investment strategies for improving the sustainability impact of the investment products. The assessment of effectiveness is based on the rating methodology of Inrate.

pillar 3a/b pension products account for a market share of more than 25%. A further piece of good news is that the effectiveness of the sustainable products of these financial institutions is at least deemed to be “Trend-setting”, with a rating of “Visionary” even being awarded to the Raiffeisen Group. This means that clients of these retail banks can assume that their sustainable investment and pension products are actually contributing to creating a more sustainable economy and society.

At some retail banks, however, the **effectiveness of their sustainable investment products** is limited, i.e. the sustainable products only make a limited or even minimal contribution to achieving greater sustainability. This highlights a major shortcoming in the market for sustainable investment and pillar 3a/b pension products: there is still a lack of reliable standards for sustainable investment and pension products in the retail banking sector. A targeted measure in this regard would be the introduction of product declarations that show in a transparent and easy-to-understand manner just how great the environmental and, in particular, climate impact of sustainable products actually is compared to conventional products. A clearly defined minimum standard – for example in line with the legally defined organic standard for food – would also be conceivable. The objective is to make it relatively easy for clients to identify just what environmental damage and greenhouse gases are generated or can be avoided for every Swiss franc invested in a sustainable product – as opposed to one Swiss franc invested in an unsustainable product – and in what volume. Among the 15 retail banks reviewed, only very few calculate and communicate the **environmental impact and carbon footprint** of their investment and pension products. This is presumably due to the fact that the currently applied methods – with the exception of those of one financial institution, namely the Raiffeisen Group – do not yet take account of the overall environmental impact along the entire value chain. This means, for example, that only the direct environmental and climate impact (scope 1 and 2 effects) generated during the production process are generally assessed for investments in automotive and aircraft manufacturers. However, it is the impact caused during the use of these products that is decisive for the high climate impact. This suggests that the methodological measurement basis for the majority of sustainability assessments needs to be improved.

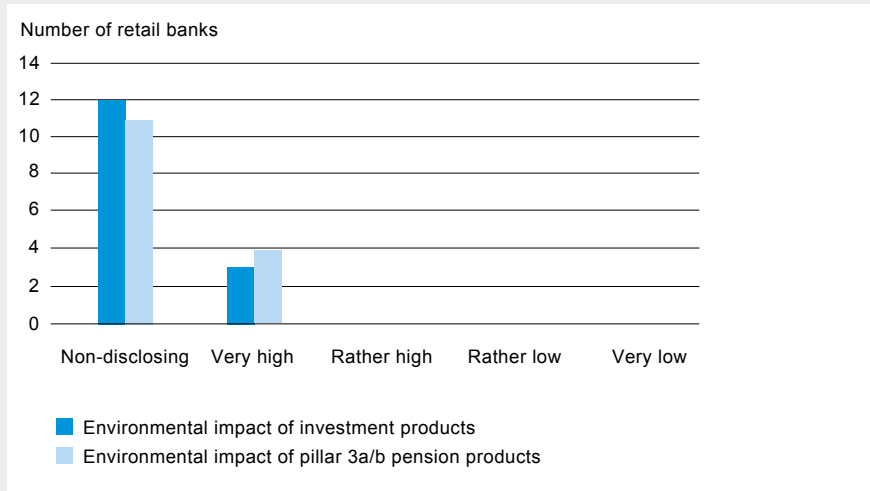
There are also deficiencies in terms of product-related communication. To date, there is not one retail bank that allows its clients to easily identify the over-

all environmental impact or carbon footprint of their invested funds when selecting their products. One retail bank, namely Zürcher Kantonalbank, communicates its Sustainability Indicator for some of its investment products. This, however, only assesses individual sustainability aspects of investment funds or portfolios and does not state the overall climate impact along the entire value chain (scopes 1 to 3) in terms of the product’s carbon footprint, but rather only its direct climate impact (scopes 1 and 2).

For Switzerland’s 15 biggest retail banks, it was therefore attempted as part of the WWF rating of the Swiss retail banking sector to establish transparency for the first time and to analyse the overall environmental impact and carbon footprint (scopes 1 to 3) of all (pension and investment) assets under management on the basis of the Inrate assessment methods. The environmental impact evaluates the external environmental costs and the carbon footprint or climate intensity on a comprehensive basis, i.e. throughout a product’s entire life cycle (scopes 1 to 3). The environmental costs and climate intensity are translated into a scale of 1 to 5. A “1” represents a very high overall environmental impact or a very high level of climate intensity, while a “5” stands for a very low environmental impact or a very low level of climate intensity. A “1” is therefore negative for people and the environment, while a “5” is positive for people and the environment in the sense that more practices which place a greater strain on the environment and have a bigger effect on climate change can be replaced (e.g. using renewable energy sources as opposed to fossil fuels).

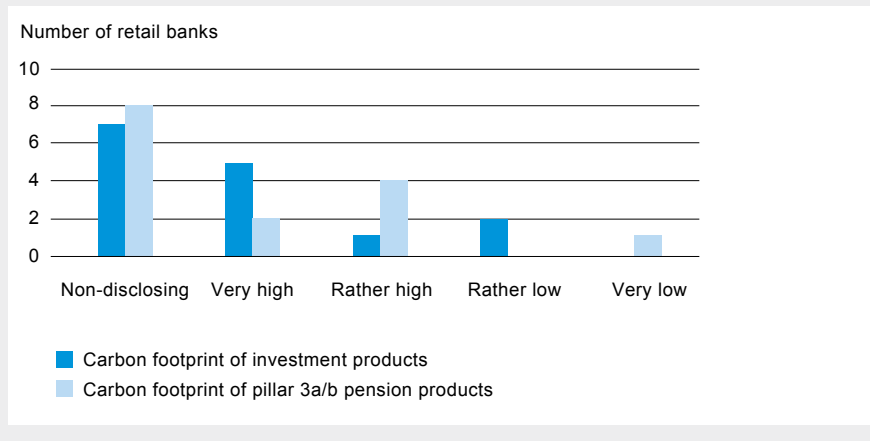
The requirement for the calculation of the environmental impact and carbon footprint was that the retail banks reviewed could provide information on the allocation of their investment and pension volumes (in Swiss francs or as a percentage) to sectors and sub-sectors which are particularly relevant in terms of the environment (sector allocation) and to regional markets (country and regional allocation) as well as to sustainable versus conventional investment strategies. The following graphs show that most of the retail banks are currently not yet able to provide the required data, and that there is thus a certain lack of transparency. Of the transparent banks, the majority still has a very high or rather high environmental impact or carbon footprint. The level of impact is only classified as rather low or very low for two financial institutions: Basellandschaftliche Kantonalbank (rather low carbon footprint of investment products) and the Raiffeisen Group (rather low carbon footprint of investment products and very low carbon footprint of pension products).

Overall environmental impact of investment and pillar 3a/b pension products



Source: WWF Switzerland/Inrate, 2017

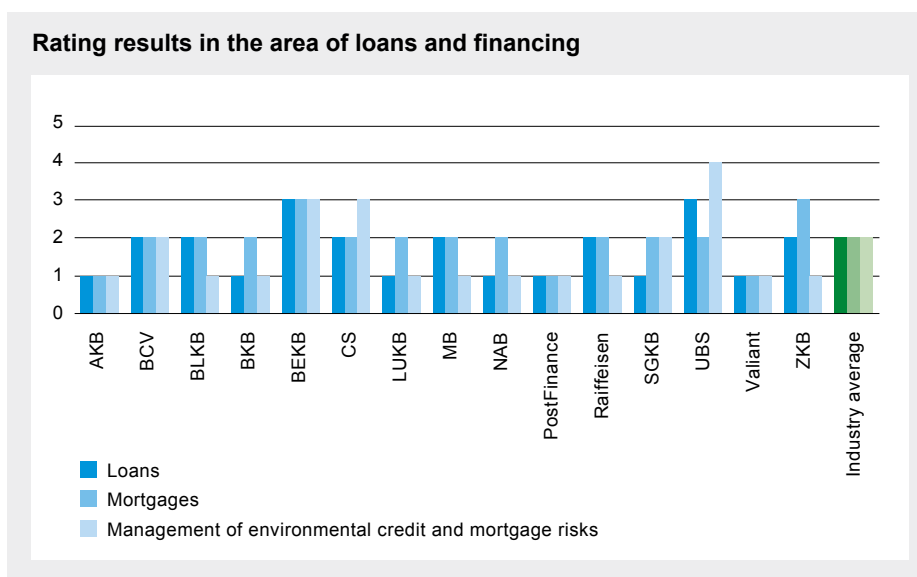
Overall carbon footprint (scopes 1 to 3) of investment and pillar 3a/b pension products



Source: WWF Switzerland/Inrate, 2017

Loans and financing

The retail banks are also not very advanced when it comes to the systematic incorporation of environmental considerations regarding loans and financing. In the area of environmentally friendly credit products, the banks currently only offer two categories: eco mortgages and occasional innovative products in the transport sector. The share of these products as a percentage of the total financing volume is minimal, i.e. less than 5%, at all financial institutions. This clearly shows that environmentally friendly financing solutions are far less advanced than the offering in the investment and pension area.



Results are rounded to whole values.

Source: WWF Switzerland/Inrate, 2017

The WWF rating of the Swiss retail banking sector has also demonstrated that environmental financing risks are not always managed on a systematic basis. At the time of the study, a minority of banks did not yet address environmental risks at all, and other banks (almost half for corporate loans and two for mortgages) only did so on a rather unsystematic basis. Nevertheless, the environmental risks associated with corporate loans are addressed in a relatively systematic manner at 6 retail banks, while this is also true for mortgages at 10 retail banks. In the case of corporate loans, it is primarily sectoral criteria that are reviewed. For mortgages, attention is chiefly paid to issues related to contaminated sites. It can be assumed that the sectoral risk criteria are applied in most cases for reputational reasons. Issues related to contaminated sites, on the other hand, are assessed as this environmental consideration is legally anchored in liability law. Accordingly, these environmental risks – with just very few exceptions – are only assessed from a qualitative perspective and not on a quantitative basis.

If we move away from the level of individual loans and mortgages and adopt a view of the overall management of environmental credit and mortgage risks, a different picture is painted. Here, Swiss retail banks are almost still at a fledgling stage, with there being only a few exceptions – in particular UBS, which comes out ahead of Berner Kantonalbank and Credit Suisse (Switzerland). These three financial institutions are already committed to applying a holistic view of their environmental financing risks.

This all-in-all rather hesitant approach adopted when it comes to the handling of environmental lending and financing risks in turn itself poses various potential risks for the retail banks. Important environmental risks that do not appear important from either a reputational or legal perspective are possibly not recognised and therefore not taken into account. It is also possible that the financial dimension of environmental aspects (e.g. in the form of cost risks but also potential income opportunities) remains undetected and is therefore not tapped. If environmental risks are only examined upon the conclusion of loans and mortgages but not on a recurring basis during their term, risks that only emerge over time (e.g. issues related to contaminated sites) also remain undiscovered. Such a static approach fails to recognise the dynamic nature of environmental risks and does not provide the level of foresight that may be necessary.

Furthermore, the effective assessment and management of environmental risks requires that such risks are not only examined and adequately monitored at the level of individual loan agreements, but also at the higher level of the overall loan and mortgage portfolios. This is because while some risks may not yet appear material at the level of an individual agreement, they may possibly be at a broader level. The comprehensive consideration of the entire financing portfolio also provides a retail bank with the opportunity to offset certain risks between the different credit areas.

Inadequate management of environmental risks may not only lead to risks and competitive disadvantages for individual banks, but, in the case of systemic risks (e.g. sunk costs from the carbon bubble), may also have an overall negative impact for the local banking sector and the financial system.

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As the assessed retail banks may be current or potential clients of Inrate, it was ensured that the Inrate team responsible for this study was not involved in the provision of advisory services to the reviewed retail banks in order to avoid any conflicts of interest. WWF Switzerland and Inrate also ensured the objectively transparent assessment of all 15 retail banks through the use of a stringent and clear methodology and the application of monitoring processes.

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To stop the degradation of the planet's natural environment and to build a future in which humans live in harmony with nature.