Setting sail for a carbon-neutral future: Net Zero Insights 2022

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Foreword

By adopting its 2050 climate strategy, the Swiss Federal Council in accordance with the Paris Agreement is aiming for Switzerland to achieve a net zero economy and to contribute to limiting global warming to 1.5°C compared to pre-industrial levels.

To reach these climate goals, every sector needs to play its role and support decarbonisation with timely and impactful actions. While a large share of the burden lies with emission-intensive sectors, the financial sector can provide essential support for the transition. For the Swiss financial sector, this implies concrete action to accelerate decarbonisation, specifically through its domestic and international financing and investment management activities.

The Asset Management Association Switzerland, Swiss Bankers Association, Swiss Insurance Association and Swiss Sustainable Finance – the leading associations representing the Swiss financial market – acknowledge the importance of a Net Zero 2050 target and have obtained supporter status for Net Zero Industry Alliances, such as the Net Zero Banking Alliance (NZBA), the Net Zero Asset Managers (NZAM) initiative and the Net Zero Asset Owner Alliance (NZAOA), and/or support their members in implementing their respective goals.

With this study we aim to create awareness of the importance of decarbonisation, provide more information on the context of net zero levers as well as create transparency on the progress made and the way forward, both for our members as well as for society. The results presented in this study show that market dynamics and alignment processes can be achieved with voluntary frameworks.

We are pleased to report that several financial institutions in Switzerland have started to actively address the Net Zero topic and undertake actions accordingly. Several institutions have joined net zero alliances. While there is a lot of work ahead of us, the first results show that the Swiss financial market has a proactive role in transitioning the world to net zero and thereby confirming Switzerland as a global leading hub in sustainable finance.

This study shall be the starting point of a long journey of combined efforts to achieve a net zero Swiss financial centre. In upcoming editions we will track our progress as an industry, thereby giving our stakeholders and society the possibility to review the progress made. We are committed to this goal, and will continue to support all our members in setting ambitious, science-based targets and achieving them in time.

Adrian Schatzmann
CEO

Asset Management Association Switzerland

Jörg Gasser
CEO

Swiss Bankers Association

Urs Arbter
CEO

Swiss Insurance Association

Sabine Döbeli
CEO

Swiss Sustainable Finance

Many actors in the Swiss financial centre have already implemented measures to integrate sustainability factors into their services and improve transparency with regard to the measures implemented.

Executive summary

Climate change is currently perceived as one of the most pressing sustainability challenges (WEF 2022). Stopping man-made global warming and keeping the temperature increase below 1.5°C is an international and cross-sectoral effort. To limit global warming in line with the Paris Agreement, reducing greenhouse gas emissions must be supplemented by removing GHG from the atmosphere to compensate for residual emissions that cannot be stopped. Such a net zero scenario is the only way in which the goals of the Paris Agreement can be achieved and the negative consequences for the environment and society be limited.

Society as well as all industries can contribute to the net zero goal by joining the net zero initiatives and alliances which have been founded in recent years or by adhering to standards which create transparency. This includes the financial industry, which mainly has an indirect impact on the environment through investments and financing, albeit a very significant one. Ultimately, financial institutions decide which ventures are realised in the economy and which direction innovation, transformation and governance takes. While net zero goals are also pursued and achieved without being a member of an alliance, participation in an alliance promotes credibility and enhances comparability among institutions.

The most important net zero alliance in the financial sector is the Glasgow Finance Alliance for Net Zero (GFANZ). It brings various alliances together under one umbrella and coordinates them to achieve the goals of the Paris Agreement. Strict requirements must be met in order to be a member of one of these alliances.

In order to reach Net Zero, institutions need to transform themselves and break new ground. Structural changes usually need to take place for organisations to be transformed towards greater sustainability. However, thanks to emerging best practices and approaches, increasingly clear guidance already exists.

Many actors in the Swiss financial centre have already implemented measures to integrate sustainability factors into their services and improve transparency with regard to the measures implemented. As an additional important step, numerous institutions have committed to a net zero strategy. This is further supported by the associations of asset managers, banks, and insurers who have joined GFANZ as supporting members, and asset managers as well as banks are paving the way and promoting different net zero alliances proactively.

	Relevant Net Zero Alliance within GFANZ	Switzerland – Share of assocation members with GFANZ-commitments	Global – Share of respective industry with GFANZ-commitments	Applied KPI
Swiss Bankers Association (SBA)	Net Zero Banking Alliance (NZBA)	62%	38%	Total Assets
Asset Management Association (AMAS)	Net Zero Asset Managers (NZAM) initiative	62%[1]	55%[2]	Assets under Management
Swiss Insurance Association (SIA)	Net Zero Asset Owner Alliance (NZAOA)	44%	n/a[3]	Own Investments
	Net Zero Insurance Alliance (NZIA)	48%[4]	11%	Gross Premiums

With its strong commitment to sustainability and net zero in particular, Switzerland and its financial industry have a proactive role compared to shares of the respective industries on an global level, as benchmarking indicates. Institutions and associations are already supporting a healthier environment and the path to a net zero world, which should serve as motivation for the whole industry to intensify its efforts even further.

[1,2] This 62%/55% does not always represent 100% of the AuM of the committed asset managers yet (for more details see chapter "Net Zero engagement for the Swiss AM industry")

[3] Data not available on NZAOA website

[4] SIA members + other insurers

As the financial sector plays a leading role in steering capital flows, its decisions are key levers in supporting the economy during the transition to a sustainable and net zero future and thereby creating a positive impact on the real economy.

Climate change and the role of the financial industry

There is clear scientific evidence of climate change affecting our ecosystems and biodiversity, both globally and locally. We are living in an era of upheaval, where global climate disasters have become a common feature on the news. The 2021 flooding in Germany and Belgium was the costliest weather disaster in European history (Climate Copernicus, 2022). July 2021 was the warmest month in recorded history globally (NCEI, 2021) and the summer 2022 showed a record draught level in Europe with almost half of Europe and the UK at risk (EC, 2022). Nature is reaching the limits of its ability to adapt to climate change. The loss of biodiversity and healthy ecosystems are increasingly having direct impacts on societies and economies around the world.

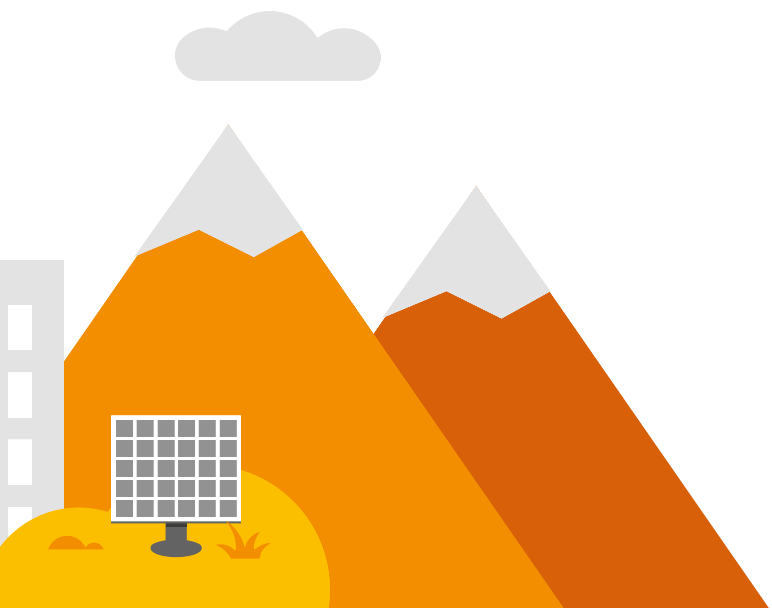
The impacts of climate change are expected to intensify as the globe warms further, and its effects are aggravated by a wide range of other societal challenges such as a growing world population, significant inequalities, persistent poverty and rapidly growing urbanisation, as well as environmental issues such as land degradation, marine pollution, overfishing and habitat loss (IPCC, 2022a).

Clearly, climate action is urgently needed. The atmosphere has already warmed by 1.1°C since the 1850–1900 period (Nature, 2021). Scientists agree that it will be challenging to reach the aim of the Paris Agreement, which is to limit global warming to 1.5°C (or at least well below 2°C) (IPCC, 2022a). To reach the goal of the Paris Agreement – and to keep the planet liveable – reaching net zero carbon emissions by 2050 is indispensable. Therefore, it is paramount that change comes now in the form of multilevel, cross-sectoral change.

Role of the financial industry

Such a change must also include the financial sector, since it is involved in financing almost all sectors of the economy. The Paris Agreement explicitly pursues the goal of aligning financial flows with low greenhouse gas (GHG) emissions and climate-resilient development. As the financial sector plays a leading role in steering capital flows, its decisions are key levers in supporting the economy during the transition to a sustainable and net zero future and thereby creating a positive impact on the real economy. Vice versa, with the private sector changing its behaviour, the financial industry has been responding by steering investments in financial instruments, taking account of environmental, social and governance (ESG) factors, with such investments becoming mainstream as a result (UNFCCC, 2021a and SSF, 2021a). In the last two years, the financial sector has made progress regarding its climate ambitions (UNFCCC, 2021b). At the same time, it is crucial for financial market actors to consider the opportunities and risks resulting from sustainability challenges and change their business models, thereby creating products with attractive risk/return profiles (SSF, 2021b).

However, fostering green finance alone is not sufficient if we want to make sure the transition happens fast enough (UNFCCC, 2021b). To make sure financial flows are aligned with global climate goals by 2050, we need to see progress regarding transparency and reporting both on the level of the real economy and in finance. As the chapter “Introduction to Net Zero” outlines, several new finance initiatives have been launched to tackle global challenges and enable financial institutions to set and achieve net zero financed emissions by 2050.[5]



[5] The Principle of Responsible Investment (PRI) and the recommendations of the Task Force for Financial Disclosure (TCFD) are further examples of important climate action.

Climate action in the Swiss Financial Centre

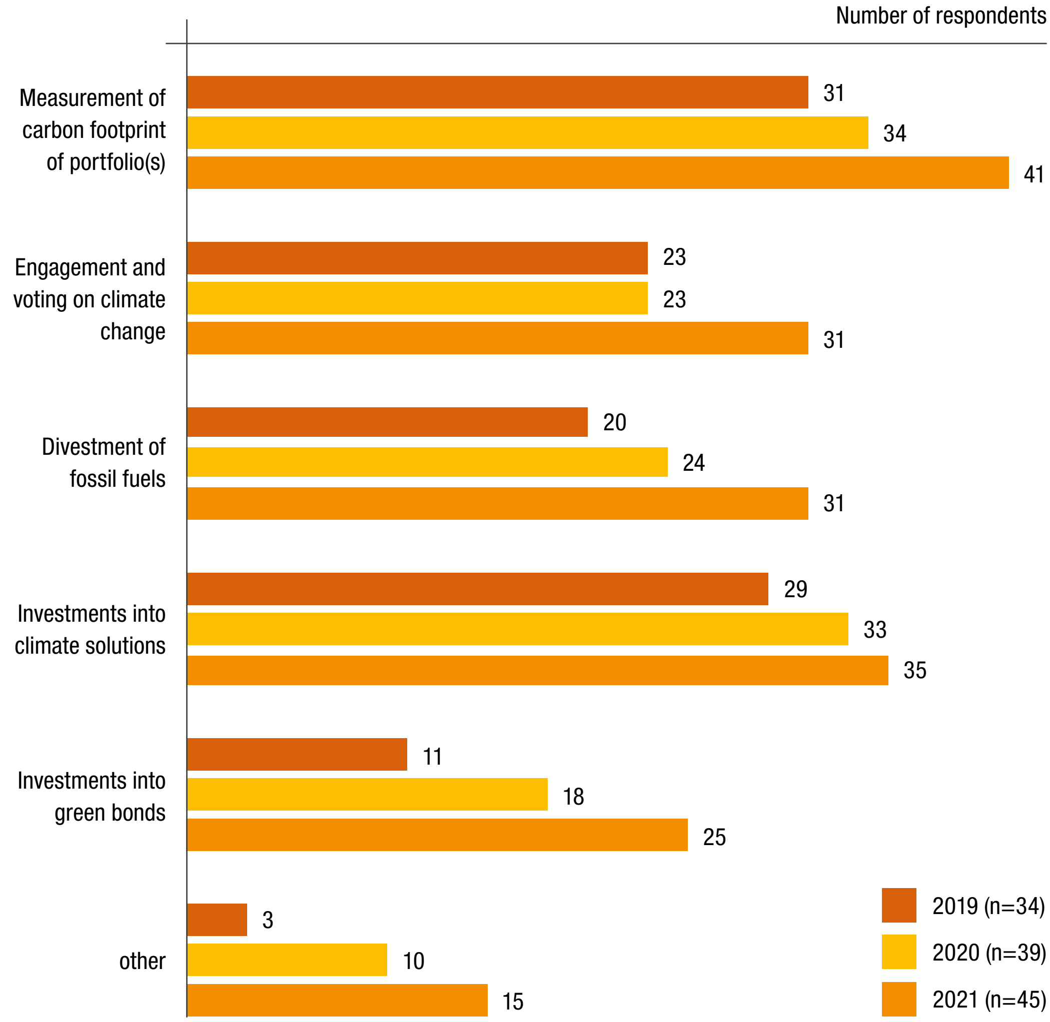
With its commitment to fulfil the Paris Climate Agreement and the UN Sustainable Development Goals (SDGs), Switzerland's goal is clear: to reach a net zero world by 2050, with a sustainable economy that respects planetary boundaries while offering prosperity to all. In November 2021, the Federal Council made a clear call to the financial industry to provide transparency on climate transition, and published the respective recommendations in June 2022 (Swiss Federal Council, 2022). It also strongly recommended to market players to join net zero initiatives.

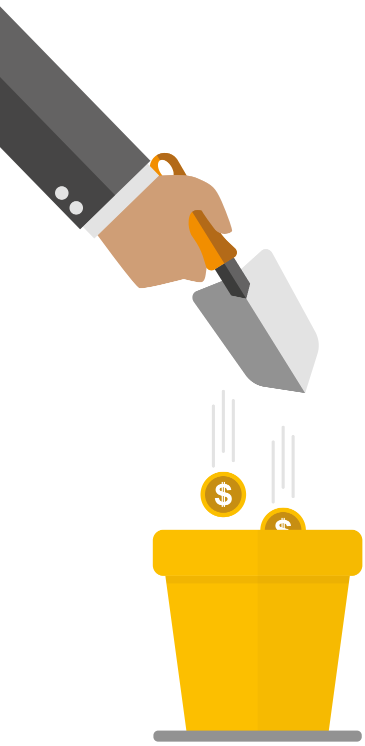
The Swiss Sustainable Investment Market Study 2022 – based on data on funds and mandates reported by banks, asset managers and assets managed internally by asset owners (i.e., pension funds and insurance companies) – confirms the growing mainstreaming of sustainable investments. In this context, climate change is a dominant topic for all financial market actors who are integrating sustainability factors into their investment processes (SSF, 2022). Based on survey results, asset managers take various measures to address climate change in their investments, namely investments in green bonds, investments in climate solutions, divestment of fossil fuels, engagement and voting on climate change as well as measuring the carbon footprint of portfolios. Figure 1 shows that the number of asset managers addressing climate change has clearly increased across all measures over the past three years.

Figure 1: Number of asset managers addressing climate change through different measures

Sources: SSF (2020), SSF (2021a), SSF (2022)

The development of the number of AMs addressing climate change





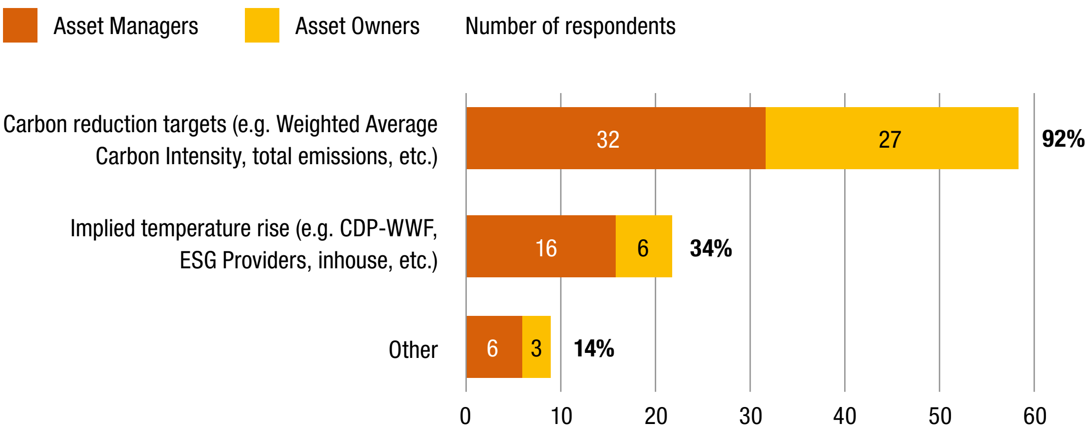
Another example which illustrates a growing concern with climate risks is the growing importance of divestment of fossil fuels. The Swiss Sustainable Investment Market Study 2022 illustrates that the most frequently used exclusion criterion for sustainable investments in 2021 was once again coal (SSF, 2022). Coal exclusions have doubled in 2021 (CHF 415 billion in assets) compared to 2020 (CHF 1036 billion in assets).

With regards to transparency, the Swiss Sustainable Investment Market Study 2022 illustrates that asset managers, banks and asset owners use different methods to measure their climate performance. 92% of them measure their climate performance by using carbon reduction targets (Figure 3), while 34% use the forward-looking metric of implied temperature rise.

Committing to net zero targets can be seen as a next important step for asset managers, banks, and asset owners to further develop their climate action.

Figure 2: Use of climate indicators to measure climate performance (in number and % of respondents) (n=64)

Source: SSF (2022)



Introduction to Net Zero

Net Zero: a global effort

Due to the increasingly significant effects of man-made climate change and the urgency to act, the ambition of 193 parties participating in the Paris Agreement (192 countries plus the European Union) is to attain climate neutrality as early as 2050 (UN, 2022). To achieve this goal, not only must GHG emissions be massively reduced, but in addition to this, emissions already released must be reabsorbed from the atmosphere. This interplay of decarbonisation and the neutralisation of residual emissions is the essence of net zero (UN, 2021).

Figure 3: Illustrating the reduction of total GHG emissions while simultaneously increasing the capacities of removing CO_2 from the atmosphere over time until reaching net zero equilibrium

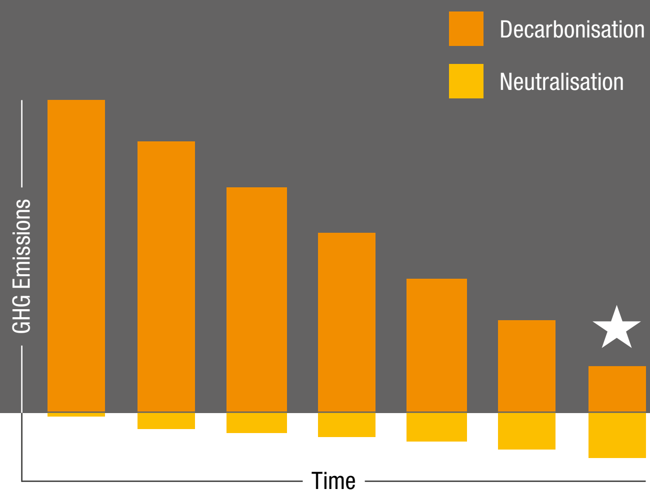
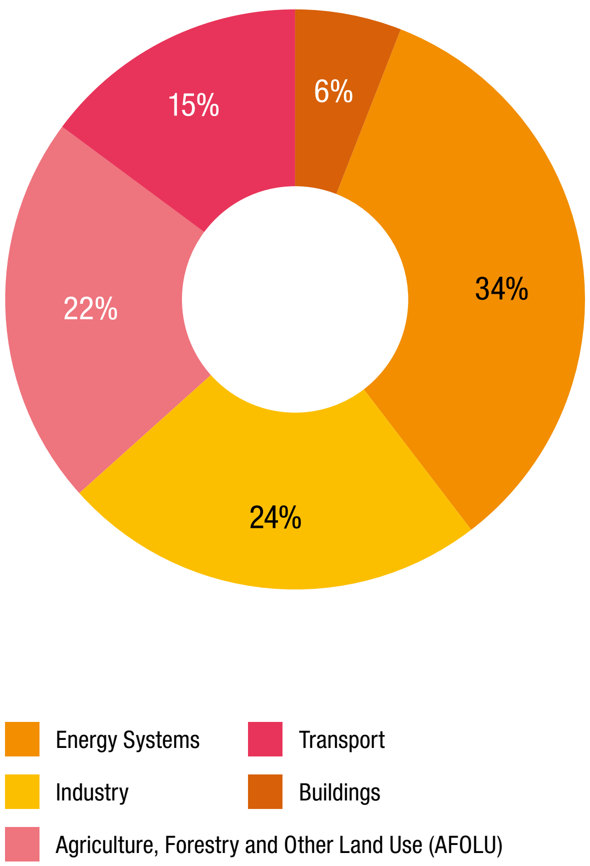


Figure 4: GHG emissions in 2019 by sector

Source: IPCC (2022b)



The reduction of GHG can be driven by different measures, and it requires people around the globe to take responsibility. In addition, in order to achieve more sustainable consumption from everyone there must be a change towards increased sustainability in the areas of energy production, industry, land use, transport or buildings. For example, energy service providers alone are responsible for over 34% (IPCC, 2022b) of global GHG emissions, which underlines the importance of replacing fossil fuels with renewables such as solar, wind and hydro.

To reach net zero, the neutralisation of all GHGs emitted despite decarbonisation must be approached from two different directions. On the one hand, nature must be preserved and revitalised so that GHGs are absorbed by forests and oceans. On the other hand, new ways must be found to capture CO_2 and store it in a safe depository such as rock by using innovation and new technologies.

The Paris Agreement was established at national level, and obliges governments to create legal frameworks and concrete measures for the reduction of GHGs. In addition to large-scale initiatives driven by government institutions and legislation, it is essential that recognised initiatives are also formed on a non-governmental scale that proactively contribute to achieving sustainability goals.

One example is the Race to Zero campaign. Race to Zero was launched by the United Nations in June 2020 (UNFCCC, 2022a). The global campaign aims to create opportunities for regions, cities, companies and investors to actively contribute to the net zero goal by 2050. Individual actors can voluntarily join a certified network or initiative and thereby participate directly in the Race to Zero. In Q2 2022, stakeholders already participating in the campaign jointly accounted for 25% of global CO_2 emissions and over 50 % of global GDP (UNFCCC, 2022b). Another key initiative driving as a framework and standard net zero is the Science Based Targets initiative (SBTi). By aligning with science-based targets derived from the latest climate research findings, companies can develop and promote business strategies to reduce GHG emissions that match with the Paris Agreement goals. Companies of all sectors and sizes who pass a third-party verification process which ensures that commitments and plans are credible and science-based can join the initiative. It already has more than 2000 member companies worldwide (SBTi, 2022). The range of companies also includes an increasing number of financial institutions, which play a key role in achieving climate neutrality due to their investing and lending activities.

Besides initiatives or alliances, there are various standards and methodologies that have become established in the context of sustainability and which allow uniform frameworks to create comparability between individual actors, and thus play an important role for transparency.

The Task Force on Climate-Related Financial Disclosure (TCFD), launched in 2015, has developed key recommendations with transnational reach. The members of the Task Force, representing both preparers and users of financial reports, have developed and published recommendations to guide companies in providing improved information for a more informed allocation of capital, specifically about climate-change risks and how they impact the company's financial situation. At the beginning of 2022 there were already over 3400 users of TCFD guidelines, representing a market capitalisation of USD 27.2 trillion (TCFD, 2022). Another example is the Paris Agreement Capital Transition Assessment (PACTA) method, which is a standardised approach to analysing global equities, corporate bonds and loan portfolios and is conducted under the direction of the Federal Office for the Environment (FOEN) and the State Secretariat for International Financial Matters (SIF). Furthermore, there is the Greenhouse Gas Protocol (GHG Protocol), which is the most widely used standard for the preparation of greenhouse gas balances, as well as the Partnership for Carbon Accounting Financials (PCAF), which is the standard for creating a consistent, globally applicable approach to measuring and reporting emissions financed by loans and investments.

GFANZ: Glasgow Financial Alliance for Net Zero

In April 2021, a milestone was reached with the launch of the Glasgow Financial Alliance for Net Zero (GFANZ). The strategic alliance aims to unite various already formed and new net zero alliances of the financial industry worldwide into one umbrella. Members currently include more than 450 member firms from across the global financial sector, representing more than USD 130 trillion in assets under management and advice (GFANZ, 2021).

GFANZ aims to support and to coordinate net zero alliances to achieve the goals of the Paris Agreement. It addresses the challenges of the financial sector and develops best practices that serve as guidance for all members in their path towards net zero. With GFANZ, a platform is created which helps financial institutions and thus indirectly also the economy and governments to finance measures that have been agreed upon and therefore to be able to advance Net Zero.

Banks, for example, have the option of making lending decisions considering the net zero orientation of companies. Preference could be given to sustainable low carbon projects. Similarly, asset managers and asset owners can drive a proactive focus of capital markets on net zero projects and companies. Insurers have a lever to provide risk strategies to clients to promote low carbon engagements and contemplate the implementation towards net zero in underwriting decisions.

The most important requirement for joining GFANZ is alignment with the Race to Zero criteria, which are:

- Applying science-based guidelines to achieve net zero emissions in all emission domains by 2050
- Setting interim targets for 2030 that represent an appropriate share of the 50% decarbonisation necessary by the end of the decade
- Establishing and communicate a net zero transition strategy
- Committing to providing transparent reporting and accounting on progress towards the objectives
- Complying with strict regulations on the use of offsets

Figure 5: GFANZ consists of sector-specific alliances that operate independently

GFANZ Aligned with UN Race to Zero	
Net Zero Banking Alliance (NZBA)	Net Zero Financial Service Providers
Net Zero Asset Managers (NZAM) initiative	Net Zero Investment Consultant Initiative (NZICI)
Net Zero Asset Owner Alliance (NZAOA)	Paris Aligned Investment Initiative (PAII)
Net Zero Insurance Alliance	

In scope of this study

Not in the scope of this study

Implications of net zero engagements for institutions

To ensure credibility, financial institutions should publish their targets and progress in reports which are made available to the public. Net zero alliances and initiatives provide standardisation, guidelines, and at the same time create trustworthy comparability in the system.

Committing to alliances and recommendations provide organisations with both insights and incentives to reach their goals. By joining a net zero alliance, members commit to setting specific goals for achieving net zero and creating a plan for how to achieve them. Furthermore, the formulated goals must be published in a way which is open to the public, and their degree of achievement must be publicly reported annually. In general, assets in scope refer to those activities that are significant and whose GHG measurement is possible based on data. Significant exclusions may be accompanied by an explanation of why they were not included (see e.g. NZBA).

The relevance of each initiative may vary depending on the financial institution's business model. For the investment and lending business, for example, the focus is on the Net Zero Banking Alliance, while the Net Zero Asset Managers initiative is important for asset management. For insurers, the Net Zero Asset Owner Alliance and the Net Zero Insurance Alliance are particularly relevant.

Figure 6: Comparison of the relevant GFANZ alliances and initiatives

Sources: Own research based on NZBA (2022a), NZAM (2022a), NZIA (2022a), NZAOA (2022a)

	NZBA	NZAM	NZIA	NZAOA
Ambition	• Consistent with maximum temperature rise of 1.5°C equivalent to net zero by 2050 • By 2030, emissions should have been reduced by ~50% under most of the net zero scenarios			
Members	• Banks	• Asset managers	• (Re-)insurers	• Institutional investors
Supporter status for non-members	• Possible (e.g., SBA has a supporter status)	• Possible (e.g., AMAS has a supporter status)	• Not possible	• Possible (e.g., SIA has a supporter status)
GHG Emission Scope	• Own on-balance lending and investment activities where significant and where data allows. Significant exclusions shall be explained	• Assets under management of asset owner clients (Scope 1, 2 and, to the extent possible, material Scope 3 emissions)	• Underwriting portfolios (Scope 1, 2 and 3). Clients' Scope 3 emissions should include Scope 1, 2 and 3 emissions if significant and where data allows	• Assets under management in investment portfolios (all proprietary portfolios, both internally and externally managed, are covered)
Methodology and Climate Scenario	• Credible sources should be used, and rationales for selection shall be provided • "No-overshoot" or "low-overshoot" scenarios • Rely conservatively on negative emissions technologies	• In line with the best available science • Expectation to adopt a science-based policy on investment in fossil fuels for the whole organisation consistent with one of the positions of the NZAM initiative-affiliated organisations	• Discretionary based on the latest available science • "No-overshoot" or "low-overshoot" scenarios • Not relying on overstating the impact from negative emissions technologies • Minimising misalignment with other UN SDGs	• In principle, the Alliance is methodology-agnostic, as long as sufficient transparency and comparability are given • Best available scientific knowledge including the findings of the IPCC should be considered
Time for target setting after joining	• 18 months for most GHG-intensive sectors and 36 months for further sectors	• 12 months with the share of the portfolio that will be managed accordingly	• 6 months if NZIA target setting protocol exists already	• 12 months
Year for 1st round of intermediate targets	• 2030 or sooner	• 2030 or sooner	• 2030 or sooner	• 2025 or sooner
Cycle for further intermediate targets	• Minimum every 5 years	• Minimum every 5 years	• Every 5 years	• Every 5 years
Reporting	• Annually • Coverage of absolute and intensity emission metrics • Comply or explain	• Annually • Follow TCFD guidance • Explanation if less than 100 % of AuM is committed	• Annually • In whatever form and detail considered appropriate by member	• Annually • Given reporting template/tool

To fulfil their net zero pledges, it could be advantageous for financial institutions to implement an end-to-end business transformation of their business models. This includes understanding the impact of net zero on their growth strategy and operating model, as well as integrating net zero across all business functions, from governance to supply chains, finance and innovation.

The key measures and recommendations to be considered by financial institutions for the net zero transformation can be summarised in nine important building blocks, which can be used as an orientation and checklist for a successful net zero transformation.

Figure 7: The building blocks for net zero transformation

Source: PwC ESG Center of Excellence

Net zero is not a standalone project. It requires a holistic view across an ecosystem that includes government, businesses, customers and communities. To reach net zero, organisations need to identify and prioritise their climate risks and opportunities. This means understanding where they are today, where they want to go and what strategies will get them there.

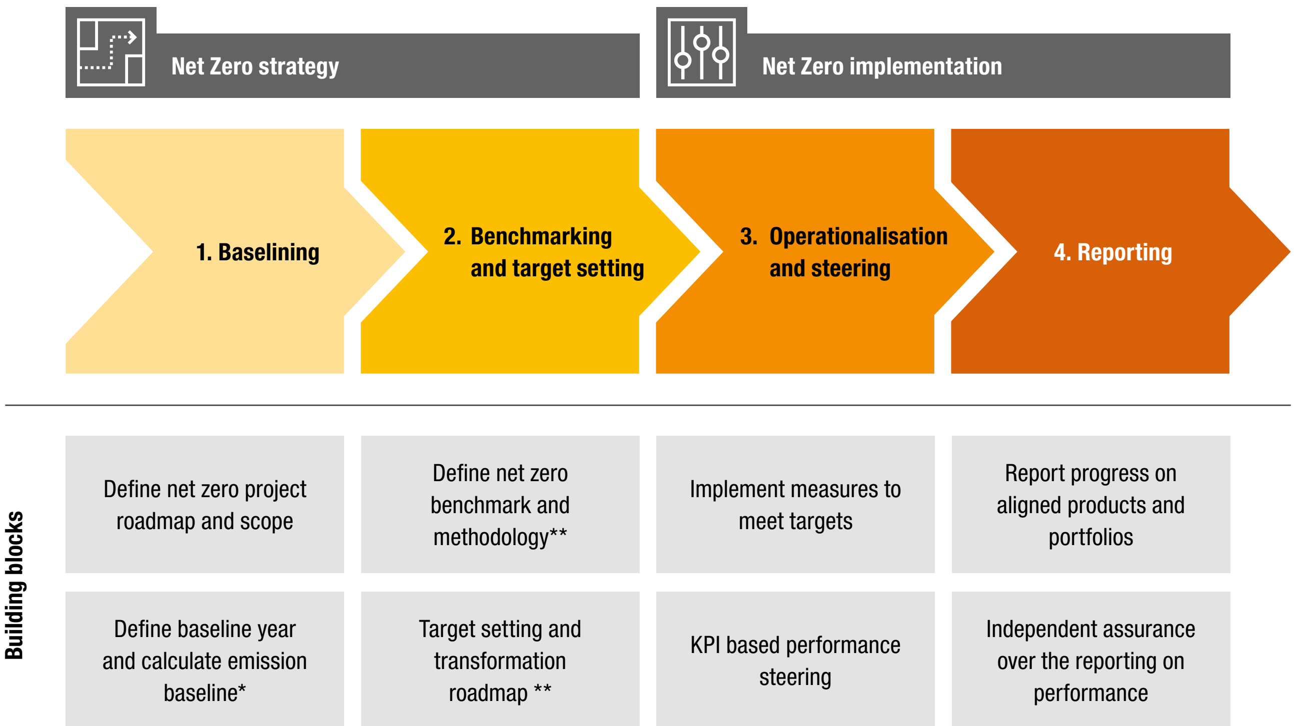
Quantifying and steering emissions towards net zero is a key point of a successful net zero transformation engagement. In general, net zero engagements have the same basics in common. They have the reduction of greenhouse gases as their object to reach net zero emissions by 2050 or sooner. For a company's own operations, this object can be supported by a range of actions such as consuming less energy, switching to renewable electricity/low-carbon fuels, and investing in systems that capture CO_2 as well as other greenhouse gases during production as well as directly from the atmosphere. However, financial services companies produce a miniscule quantity of emissions in their own operations compared with the critical role which their lending and investing activities have in accelerating the carbon transition. The emissions associated with loan or portfolio emissions of financial institutions constitute about 97% of their total emissions (New Climate Institute, 2020). Therefore, the high priority of financial institutions are the activities they finance and invest in.

Decarbonising lending and investing portfolios is a complex undertaking. It requires defining the emission baselines today, determining appropriate and (sector-specific) decarbonisation pathways for the future and engaging clients in mitigation. Projections around rates of future global decarbonisation are recurring exercises, which typically start with high-priority sectors based on emissions, and support developing portfolio selection and management strategies which align with company climate targets while balancing overall growth and risk objectives.

Setting up a project to quantify and steer emissions towards net zero should be done based on a consistent approach. The steps from emissions baselining and steering through to progress reporting can vary in terms of implementation level and detail based on a financial company's size and ambitions, but in general they can be summarised as follows (PwC, 2022).

Figure 8: Net zero strategy and implementation approach

Source: PwC ESG Center of Excellence



* By division & sector; relevance of Scopes 1 and 2 emissions might differ between alliances

** Division and industry-specific pathways within multiple scenarios based on input factors of baseline and benchmark

Determining emission baselines comes with challenges. These include incomplete, inconsistent or even missing data in some business areas. This is compounded by the lack of a single global measurement standard and an agreement on key metrics for portfolio warming. Moreover, certain asset types have no carbon accounting standard and others have a limited conceptual relationship to emissions.

Some implementation aspects which help to deal with the challenges of net zero engagements are:

- Involving all functions into the working group of a net zero project and thinking about cross-organisational integration from the start to ensure smooth operationalisation
- Taking multiple net zero frameworks and scenarios into account when designing net zero targets and steering while managing potential risks from a still-developing market standard
- Focusing on real economy impact as soon as possible, setting sector-specific targets. This will, in the long term, protect against arguments of greenwashing

Net zero alliances and initiatives are becoming standards for net zero engagements within the financial services industry. An active communication on net zero alliances presents institutions with an opportunity that will become more relevant in the future.

Net Zero engagement of the Swiss banking industry

The transition to net zero is becoming a strategic imperative for companies and financial institutions. Only with this mainstream focus can the estimated USD 100 trillion plus of investment needed for a clean energy future over the next three decades be financed (IEA, 2021).

The Swiss Bankers Association (SBA) considers sustainable finance a top strategic priority, and has conducted key projects in the areas of the advisory process for private clients and mortgage financing as well as a joint study with the Boston Consulting Group on financing the transition (SBA, 2021a). SBA considers creating transparency at industry level in connection with net zero commitments to be important, and recommends its members join GFANZ initiatives. This is related not only to the credibility of the financial industry at large, but also to the awareness of the role of the industry in the transition to net zero. Since it can be assumed that there will be even more intense competition among financial centres in the Race to Zero, it is also appropriate to transparently identify Switzerland's position in the international environment of leading financial centres. The focus here is predominantly on business volumes (balance sheet) and less on the number of institutions. However, it is important to provide an overview of the structure of the Swiss banking sector, as different alliances under GFANZ might be relevant.

A diversified banking industry

The banking industry in Switzerland is very diversified and one of the most competitive in the world. The size, structure and business models differ from one institution to the other. According to the Swiss National Bank, 239 banks were active in the country as at the end of 2021, including four big banks, 24 cantonal banks, 59 regional and savings banks, 94 foreign banks, 39 stock exchange banks and five private bankers (SNB, 2022a).

Switzerland is the global market leader in cross-border private banking with a quarter of all cross-border assets under management (AuM) worldwide, totalling CHF 2,160.7 billion (SBA, 2021b). It is also one of the few financial centres to benefit from two strong and complementary financial hubs in Geneva and Zurich. Geneva is known worldwide for its private banking services, whereas Zurich is the operational centre of the two biggest Swiss banks and a leader in asset management and insurance. Moreover, retail banks finance the real economy in the form of credits to individuals, SMEs and corporates and in mortgage financing. Here, banks can actively contribute to the transition of our economy, especially domestically (SBA, 2021a). Furthermore, cantonal banks, counting for 37.3% of total domestic mortgages (SBA, 2021b), must be distinguished by their legal structure and governance, as they are required to reserve at least one third of the shareholding for the canton and are often subject to cantonal legislation. Consequently, it may limit their freedom of actions, especially regarding international commitments.

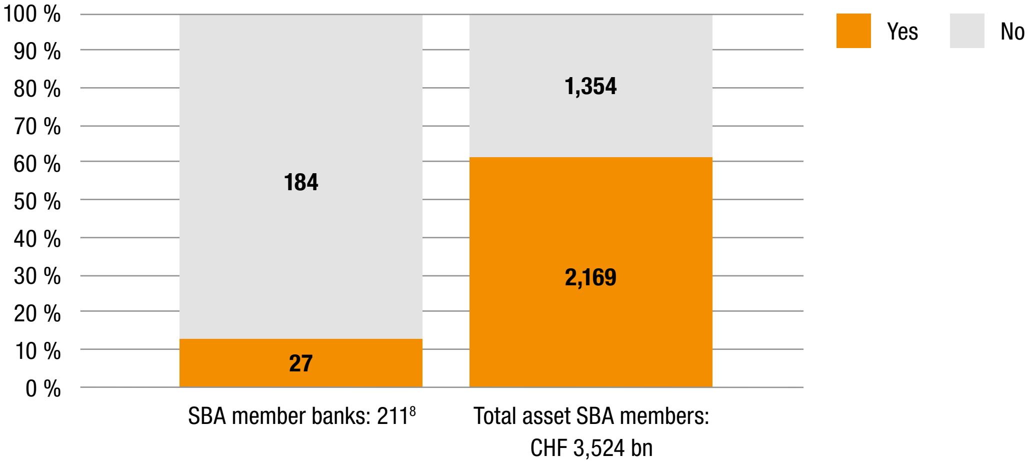
SBA as a support member of the NZBA and other net zero commitments

The SBA has recently become a supporting member of the Net Zero Banking Alliance, and recommends its members to take part in the GFANZ initiatives, particularly the two which are most relevant for banks: the NZBA and the NZAM initiative. Much has already been done regarding increasing transparency and integrating ESG preferences into the advisory process and product. In this respect, GFANZ initiatives are an important and necessary step towards carbon neutrality. It is an opportunity for the Swiss banking sector to become a worldwide leader in sustainable finance services and add additional value to its clients, along with better climate-related financial risk management. Climate change is a global concern, requiring all actors to work together in Switzerland as well as internationally for an aligned and coherent response. It is in this context that the two big international banks have taken a leading role as founding signatories of the NZBA in April 2021. Moreover, additional institutions have already made their own internal net zero commitments, pursuing the same objective and pushing towards net zero.

Out of the 239 banks active in Switzerland (SNB, 2022a) representing CHF 3,821 billion of total assets (SNB, 2022b), 211 are member banks of the SBA, representing CHF 3,524 billion in total assets or 92% of the total Swiss market.[6]

Figure 9: NZBA signatories of SBA members by number and total assets

Sources: Based on SNB (2022b), NZBA (2022b)[7]



Traditional banking activities: credit and financing the real economy

Banks can act on the primary market by emitting debt or equity on the capital markets or by providing credit and financing to the real economy. This activity is particularly important to finance the transition and redirect financial flows to a net zero economy. Twenty-seven SBA member banks are committed to the NZBA, which represents 13% of SBA member banks in terms of number of institutions. Looking from a balance sheet perspective or total assets the result is even higher, at 62% of total assets of SBA members that are committed to the NZBA, with about CHF 2 trillion. Three categories of banks distinguish themselves by already being members of NZBA. First, the two international big banks play a major role, as they are both founding signatories of the NZBA. Second, foreign banks active in Switzerland are also very well represented as major international groups active in all key jurisdictions. Third, we describe "Swiss first-movers", who are mainly oriented towards the domestic market. These front-runner institutions show the way to the Swiss financial sector as a whole, so that the entire industry can be aligned to the Paris Agreement.

Globally, 114 banks are committed to the NZBA (NZBA, 2022b), which represent USD 68 trillion of total assets or 38% of global banking assets. With 62% of SBA members' total assets committed to the NZBA, Switzerland demonstrates its good positioning compared to the global average.

[6] Systemically important domestic banks (UBS, Credit Suisse, Postfinance and Zürcher Kantonalbank) were counted as a consolidated group due to their domestic significance; Raiffeisen Switzerland is not an SBA member.

[7] See previous footnote

[8] As of August 2022, the total number of SBA members, including banks, investment firms, other financial institutions and associations, was 264, of which 211 are banks.

Net Zero engagement of the Swiss asset management industry

Switzerland is one of the largest centres for asset management in Europe as well as worldwide. Asset management is a key pillar of the Swiss financial centre alongside its traditional strengths in banking and insurance business. Swiss asset management firms manage the savings and pensions of millions of people in Switzerland and abroad. In terms of assets under management, Switzerland is the fourth-largest asset management location in Europe with CHF 3.3 trillion managed domestically (IFZ, 2022).[9]

With such a position comes great responsibility. Over the past few years, the demand and the need to offer asset management services and products that align with investors' sustainability goals (AMAS, 2021) have significantly increased. Amongst other environmental, social and governance themes, climate has been at the forefront of major sustainability topics. Making financial flows climate-compatible with the transition to a carbon-neutral economy represents both a corporate responsibility as well as a competitive advantage for asset managers. As such, sustainable asset management should stand out by offering high standards of quality in sustainable asset and portfolio management, adding long-term value and forming part of a Swiss sustainable finance ecosystem in partnership with authorities, academia and businesses. As an industry association, the Asset Management Association Switzerland's (AMAS) commitment is to strengthen the credibility of the Swiss financial centre for investors and to ensure the integrity and transparency of investment products that are marketed as sustainable. Within GFANZ, the Net Zero Asset Managers (NZAM) initiative corresponds to the global industry standards which are relevant for the whole asset management industry.

[9] As of December 2021, based on IFZ (2022).

The Swiss asset-management industry

Asset management is defined as the production and management of investment solutions in the form of collective investment schemes or individual institutional mandates (IFZ, 2022). A key role of the asset management industry is to provide a link between the financial markets and the real economy. Asset managers contribute to an efficient allocation of capital by assigning these funds to the companies that offer productive investment opportunities, and also if additional funding is required to realise new investments (through primary markets). Asset managers invest on behalf of and in the best interest of their clients as per their fiduciary duty.

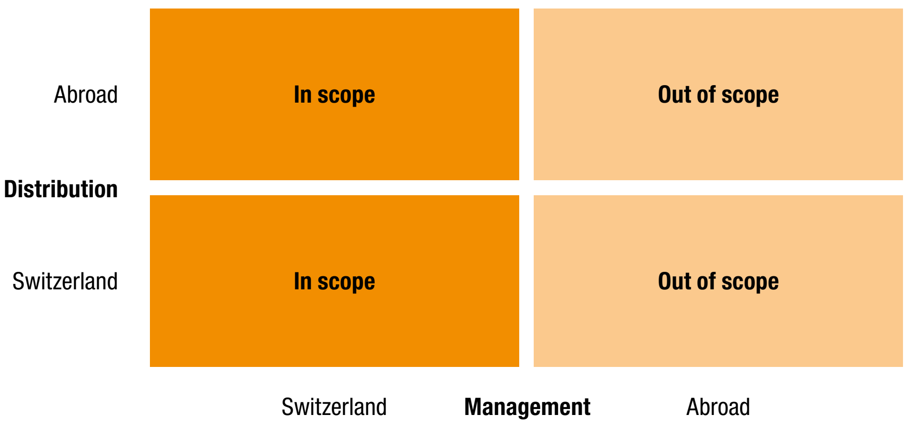
Over the past years, sustainability has been an integral topic which has been incorporated within asset management services across the value chain: at the entity level, the product and portfolio level, and at the point of sale or distribution level. Sustainability can be addressed and embedded at various levels of the value chain.

The Swiss asset-management industry is comprised of FINMA-authorised banks and securities dealers, fund management companies, as well as FINMA-licensed asset managers of collective investment schemes (which includes insurance companies with an asset management arm). As of December 2021, the Swiss Asset Management Study (IFZ, 2022) accounts for **308 Swiss-based companies** that are consistent with the above definition of asset management and consider asset management as their main value proposition. In the context of this study, it is important to note that all data are based on a production view, which corresponds to the assets managed in Switzerland (see Figure 10). They represent a market of **CHF 3.3 trillion of assets** managed domestically.

With **127 active members**, AMAS members account for almost three fourth (or CHF 2.3 trillion) of the Swiss overall asset management industry in assets under management terms.

Figure 10: Production perspective – assets managed in Switzerland are in scope

Source: IFZ (2022)



AMAS as a Supporter Organisation of the NZAM initiative

As a key intermediary between the real economy and the financial markets, asset managers have an important role to play in the transition to a net zero economy. The Net Zero Asset Managers initiative provides a global common standard for asset managers to commit to, and demonstrate action in line with, achieving net zero emissions by 2050 or sooner. The initiative engages its signatories to work in partnership with clients on decarbonisation goals, consistent with the ambition to limit the increase in temperature to no more than 1.5°C above pre-industrial levels by 2100 (and equivalent to net zero by 2050) across all assets under management. Through NZAM initiative, asset managers are required to set interim targets (pledged assets) for 2030. Asset managers committed to NZAM initiative are required to review their interim targets at least every five years, and work towards increasing the proportion of AuM covered by this target until 100 % of assets are included. While net zero alliances play a key role in promoting net zero goals within the industry, it is important to note that some asset managers have been including net zero objectives in their strategies for many years. As GFANZ was created and the alliances got formalised, some asset managers joined the initiatives while others kept their net zero goal independent from the industry initiatives. In November 2021, the Asset Management Association of Switzerland (AMAS), which represents the Asset Management industry in Switzerland, became the second industry association worldwide to join the NZAM initiative as a Supporter Organisation. As part of its supporter role, AMAS promotes the initiative and encourages its members to join and commit to this global standard.

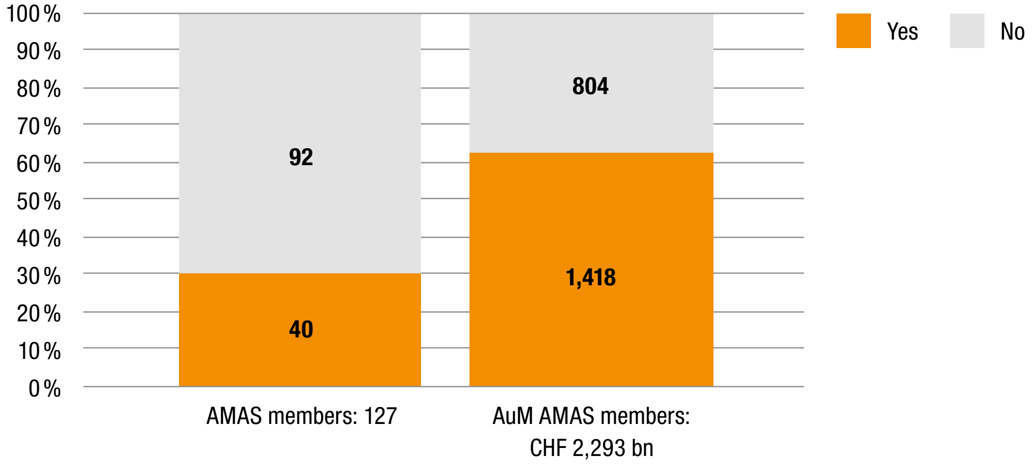
Net Zero Asset Managers initiative in Switzerland

Commitments have been on the rise since COP26, as 24 AMAS members accounted for NZAM initiative signatories back in November 2021 and as AMAS joined as a supporter organisation. As of August 2022, **40 asset managers** and AMAS members have signed and committed to NZAM initiative.

Together, the **40 AMAS members** that are part of NZAM represent **CHF 1.4 trillion of AuM** managed in Switzerland, corresponding to **62% of AMAS members'** overall AuM managed in Switzerland. It is important to note that their current Net Zero pledges do not yet always cover 100% of their AuM although committing to NZAM initiative engages the asset manager to ratchet up the proportion of AuM covered until 100% of assets are included by 2050 or sooner.

Figure 11: NZAM initiative signatories of AMAS members by number and total AuM

Sources: IFZ (2022), NZAM (2022b)[10]



Internationally, 273 asset managers have committed to the NZAM initiative, representing **US$61.3 trillion** of total assets under management (NZAM, 2022b) or **55% of global AuM** estimated at US$112.3 trillion (BCG, 2022) although this number does again not imply that 100% of their AuM are already covered by net zero pledges.

At the time of publication, out of the 273 asset managers globally committed to the NZAM initiative, 43 asset managers have set their initial targets for 2050 while others have just set their interim targets for 2030. As initial targets are required to be set within the first 12 months of becoming a signatory, those initial targets correspond to NZAM early adopters' or frontrunners'. These initial targets represent approximately 39% of the 43 managers' assets to date. In other words, 39% of the AuM of the asset managers which published their initial targets, are currently committed to be managed in line with achieving net zero by 2050 or sooner. This is up from 35% when the first set of targets were published at COP26.

In Switzerland, 18 AMAS members have already set their initial targets, which is almost half of the global 43 NZAM signatories who have done so and of the 40 AMAS members who have joined NZAM. These initial targets represent approximately 38% of the managers' assets to date.

Assuming a cover rate of 38% and building on the 62% of AuM managed in Switzerland, we can estimate that **23% (or CHF 532 billion)** of assets under management managed in Switzerland are currently committed to be managed in line with achieving net-zero by 2050 or sooner.

Using the same method, a cover rate of 39% globally and a 55% of global AuM committed to NZAM, we can estimate that **21% (or US$ 23.9 trillion)** of assets under management globally are currently committed to be managed in line with achieving net-zero by 2050 or sooner.

While Switzerland sits slightly ahead vis-à-vis the global share, this analysis primarily illustrates how aligning 100% of assets under management with net-zero goals is a transition and a path on which asset managers have rapidly started to embark on.

[10] Share of assets managed in Switzerland; total AuM are estimated by adding the volumes managed by asset managers in Switzerland in asset management mandates, collective investment schemes (CISA) under Swiss law and CISA under foreign law. The reference date for AuM is 31 December 2020 and for NZAM initiative signatories it is 30 June 2022

Net Zero engagement of the Swiss insurance industry

The insurance industry is determined to play an important role in addressing the challenges ahead. Long-term thinking and planning are part of the DNA of insurers. Risks must be evaluated and permanently re-evaluated, which is part of the traditional risk assessment process. Climate change is accelerating and shaping these risks. Limiting increases in temperature and protecting against the effects of climate change are of great importance to the insurance industry.

To fulfil their commitment, insurance companies are clearly embracing sustainability in a comprehensive sense and are gradually embedding it at all levels of their business activities. For this reason, the Swiss Insurance Association (SIA) member companies spoke out in favour of compliance with the Paris Agreement as early as 2016 and pledged to lend their support to the Federal Council's associated CO_2 reduction targets.

Insurance industry in Switzerland

The private insurance industry contributes 4.2% to Switzerland's gross domestic product. With almost CHF 28.6 billion Swiss francs, 43% of the gross value added in the financial sector comes from the private insurance industry. As primary insurers or reinsurers, they provide benefits in the event of property damage, illness and accident, old age or even death, and pay out an average of CHF 139 million per day to their policyholders in the form of claims and pensions. In doing so, they protect individuals from social hardship or companies from economic ruin – and at the same time contribute to a higher added value of the economy and society. Insurance companies are among the largest and most important investors in Switzerland and abroad. They build homes, grant mortgage loans and support many start-ups. The companies and their 50,000 employees in Switzerland are also important taxpayers. They generate CHF 2.9 billion in corporate and income taxes. Furthermore, the insurance industry is an attractive employer and offers its employees innovative training and further education opportunities. All of this makes the industry a major part of the Swiss economy. Private insurers are therefore committed to the successful and sustainable development of their locations in economic, social, and political terms, and thus assume economic responsibility.

The Swiss Insurance Association represents the interests of the private insurance industry at national and international level. The association comprises around 70 primary insurers and reinsurers employing a workforce of approximately 50,000 people in Switzerland. Overall, the member companies of the SIA account for around 85% of insurance premiums generated in the Swiss market.

Measuring progress in the insurance industry

The SIA made a commitment in its strategy to publish regular and transparent reports on the implementation of its sustainability efforts on an annual basis. This report also reflects the SIA's conviction that individual responsibility and a voluntary code remain the most effective conditions. When sustainability is in one's own interest, as is the case within the insurance industry, it does not need to be additionally prescribed and regulated. The principle of subsidiarity of state action and the primacy of market-based approaches can achieve the most impact.

To drive the topic of sustainability forward, insurance companies have effective levers with their underwriting and asset management business. With capital investment of CHF 545 billion (excluding unit-linked life insurance), private insurers can potentially make an important contribution to promoting a more sustainable environment – be it to the climate or in social endeavours. In 2021, 80% of the investments that companies reported to the SIA integrate a sustainable investment approach (SIA, 2021). Methods which are now widely used include integrating ESG factors, applying exclusion criteria, exercising voting rights and impact investing.

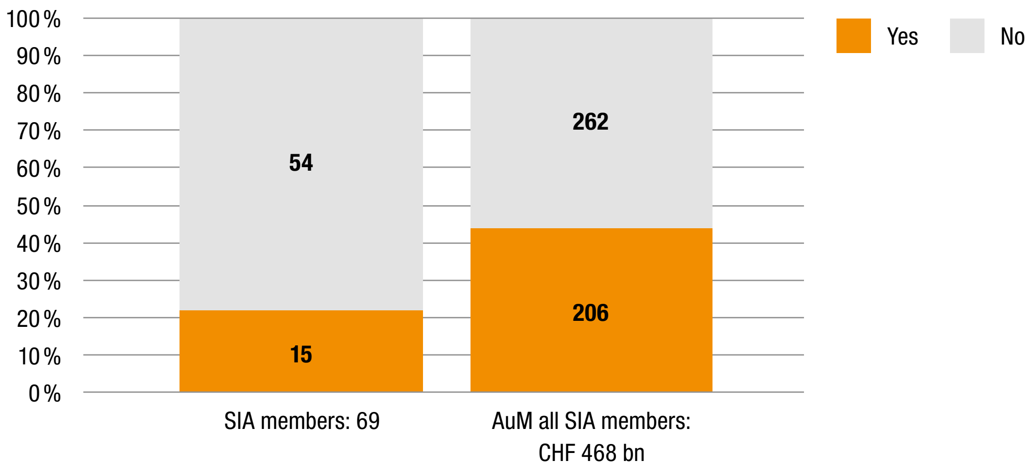
There are questions to be answered regarding the approaches that should be taken in underwriting – the accepting of risks – regarding sustainability risks. Which risks, such as climate impacts, could be covered? Which should be systematically excluded? Insurers are developing individual risk policies to address these questions. As a result, an increasing number of insurers are drawing up underwriting guidelines for their employees to ensure that they handle sustainability risks in a standardised manner which is aligned with the company's strategy. Within risk assessment, the insurer evaluates the specific risk presented. Reputational risks and the potential for risks to change over the term of the insurance contract are increasingly being factored into these risk assessments.

Net Zero Alliances

The Net Zero Asset Owner Alliance is a network of institutional investors committed to reducing CO_2 emissions in their portfolios to net zero by 2050. They include some of the largest investors in the world. The founding members include three re/insurance companies, namely Allianz, Swiss Re and Zurich. On 30 September 2021, SIA joined the Alliance as a supporter. The long-term orientation of their business model makes it virtually incumbent on insurers to help promote sustainability. In their investment policy in particular, SIA's member companies have an interest in ensuring that their investments are attractive over the long term, given the long horizon over which their premiums are invested. The SIA member companies which are also members of NZAOA at the same time cover 44% of the investments of all SIA members. In the Swiss insurance market a total of 17 out of 110 companies have joined NZAOA, whose investments cover 48% of the total investments of the Swiss insurance market. Therefore, about half of the capital investments in the Swiss insurance market are already pursuing the net zero target as defined by the NZAOA.

Figure 12: NZAOA signatories of SIA members by number and proprietary AuM

Sources: FINMA (2020), NZAOA (2022b)[11]



[11] The reference date for proprietary AuM is 31 December 2020 and for NZAOA signatories it is 30 June 2022

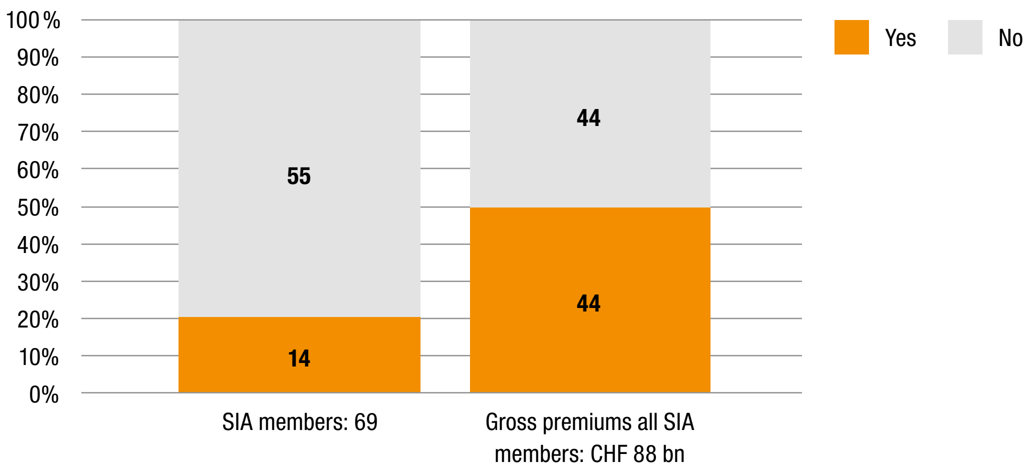
About half of the capital investments in the Swiss insurance market are already pursuing the net zero target as defined by the NZAOA.

The Principles for Sustainable Insurance's (PSI) Net Zero Insurance Alliance (NZIA) was established by a group of leading insurers who are all signatories to the PSI. The NZIA currently comprises of 20 insurers. Member companies have committed to individually transitioning their insurance and reinsurance underwriting portfolios to GHG emissions by 2050. On the part of the SIA, five members or 14 legal entities are represented in the alliance. These companies cover around half of the total premium volume of all SIA members, which they reported according to the Swiss Financial Market Supervisory Authority (FINMA). Out of all Swiss insurance companies participating in the NZIA, 48 % of the total premium volume in Switzerland is covered by them. According to the Glasgow Financial Alliance for Net Zero (GFANZ), 11 % of the world's premium volume is covered by all the NZIA member companies worldwide.

By establishing the NZIA, insurers are building on their climate leadership as investors through their membership in the UN-convened Net Zero Asset Owner Alliance (NZAOA), which was set up in 2019. In doing so, they are demonstrating the key role of the insurance industry as risk managers, insurers and investors in supporting the transition to a net zero economy.

Figure 13: NZIA signatories of SIA members by number and gross premiums

Sources: FINMA (2020), NZIA (2022b)[12]



[12] The reference date for gross premiums is 31 December 2020 and for NZIA signatories it is 30 June 2022

Conclusion and outlook

Several scenarios are conceivable as regards future climate developments. With respect to nature, a worst-case scenario (IPCC, 2021)[13] might be a world in imbalance where GHG emissions cause a relatively strong temperature increase, with negative consequences including a rise in sea levels and natural disasters. A best-case scenario (IPCC, 2021)[14] is a world in equilibrium which transitions to a net zero emissions society by 2050. This means a controlled temperature rise of no more than 1.5°C above pre-industrial levels.

Financial institutions are expected to play an essential and proactive role in the transition to net zero as they are the central hub for directing economic-financial flows, both on the financing side and on the investment side. There is relatively less focus on the financial institutions' own operations, but they are also expected to align with the Paris goals. They are addressed separately by financial institutions. Therefore, climate sustainability is not at odds with a successful business, but can add value to investors through sustainable financial performance, addressing personal values and contributing to positive change.

Engagements in net zero alliances represent a credible opportunity to make a valuable contribution to achieving the goals of the Paris Agreement. Following the launch of GFANZ in April 2021, a steady stream of additional financial institutions has been engaged. Within Switzerland, at least 8% to 28% of AMAS, SBA and SIA members have already joined the respective relevant net zero initiatives.[15] Expressed in terms of the various measures of those respective initiatives, namely total assets (NZBA), assets under management (NZAM, NZAOA) and gross premiums written (NZIA), this corresponds to at least 44% to 62%.

Remarkably, proportionately more larger institutions have tended to join net zero alliances. The efforts necessary to implement net zero policies as well as the uncertainties associated with the implementation, which pose relatively greater hurdles for smaller institutions in particular, are certainly likely to be reasons for this. Smaller players will have to develop their paths first as they do not have the resources of the larger players to develop all these plans. This means that they can be expected to commit more at a later stage and take a more pragmatic approach to implement net zero measures in a different level of detail. As experience is gained over time, the uncertainties associated with the implementation of net zero measures will decrease and the importance of net zero will increase, and as a result a further growth in members can be expected.

The lever of the financial centre is more important in Switzerland than in other countries. While 0.1% of global emissions are generated in Switzerland (SBA, 2021a), 24% of cross-border wealth management is managed in Switzerland (BCG, 2020) and the Swiss market share in the global asset management industry is 3% (IPE, 2021). Therefore, the Swiss financial centre can make a significant contribution to positive change. As a matter of fact, Swiss financial institutions are already making a significant contribution to achieving the Paris climate targets. Compared to the global share of engagement in GFANZ initiatives Switzerland is playing a proactive role and is on the right track. With more financial institutions following suit, this trend is likely to continue.

It will require many more years of effort to achieve the goals of the Paris Agreement. By setting up challenging net zero goals and pathways as well as reporting on progress, the journey has just started.

[13] Scenario with very high GHG emissions

[14] Scenario with very low GHG emissions declining to net zero around or after 2050, followed by varying levels of net negative GHG emissions

[15] NZBA, NZAM, NZAOA, NZIA

Compared to the global share of engagement in GFANZ initiatives Switzerland is playing a proactive role and is on the right track. With more financial institutions following suit, this trend is likely to continue.

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Authors

Asset Management Association Switzerland

Aurélia Fäh
Sustainability Expert

aurelia.faeh@am-switzerland.ch

Markus Dinkelmann
Junior Analyst Asset Management

markus.dinkelmann@am-switzerland.ch

Swiss Bankers Association

Hans-Ruedi Mosberger
Head Asset Management & Sustainability

hans-ruedi.mosberger@sba.ch

Alexandre Roch
Sustainable Finance Expert

alexandre.roch@sba.ch

Swiss Insurance Association

Gunthard Niederbäumer
Head of Non-life and Reinsurance

gunthard.niederbaeumer@svv.ch

Frédéric Pittet
Economic Issues Expert

frederic.pittet@svv.ch

Swiss Sustainable Finance

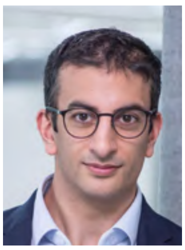
Katja Brunner
Director Legal & Regulatory

katja.brunner@sustainablefinance.ch

Hendrik Kimmerle
Senior Project Manager

hendrik.kimmerle@sustainablefinance.ch

PwC Switzerland



Serhat Günes
Operational Excellence & ESG

serhat.guenes@pwc.ch

Max Lorenz
Operational Excellence & ESG

max.lorenz@pwc.ch

Leadership team

Asset Management Association Switzerland

Adrian Schatzmann
CEO

adrian.schatzmann@am-switzerland.ch

Swiss Bankers Association

Jörg Gasser
CEO

ceo-sekretariat@sba.ch

August Benz
Deputy CEO and Head of Private Banking & Asset Management

august.benz@sba.ch

Swiss Insurance Association

Urs Arbter
CEO

urs.arbter@svv.ch

Swiss Sustainable Finance

Sabine Döbeli
CEO

sabine.doebeli@sustainablefinance.ch

PwC Switzerland

Patrick Akiki
Partner, Financial Services Markets Leader

akiki.patrick@pwc.ch

Marc Lehmann
Operational Excellence & ESG Transformation Leader

marc.lehmann@pwc.ch

Antonios Koumbarakis
Head Sustainability & Strategic Regulatory

antonios.koumbarakis@pwc.ch

www.pwc.ch

www.swissbanking.ch

www.am-switzerland.ch

www.svv.ch

www.sustainablefinance.ch

PwC, Birchstrasse 160, 8050 Zurich, +41 58 792 44 00