

Executive summary

Attention to sustainable finance is at an all-time high in the news and sustainably managed assets have hit a new peak both internationally and in Switzerland. Multiple initiatives have emerged since the last two PwC/WWF joint reports (Paradigm shift, 2019; Nature is too big to fail, 2020). Despite this increasing attention and the impressive array of publications from actors such as the Swiss Bankers Association and the Federal Council, the significant direct and indirect impacts of financial flows on climate change and biodiversity loss still need to be addressed with more concrete actions. Financial flows, particularly in Switzerland, still have significant negative environmental impacts. And while progress is being made in relation to the integration of climate risks, financial flows are still far from being aligned with international agreements such as the Paris Agreement and especially the Convention on Biological Diversity. PwC and WWF believe this has to change and suggest a Swiss-quality approach to sustainable finance: all financial flows managed or controlled by Swiss financial institutions contribute to a green and resilient economy, thus facilitating the achievement of the Paris Agreement and the Convention on Biological Diversity.

The World Economic Forum underlines it clearly: “There is no future for business as usual – we are reaching irreversible tipping points for nature and climate, and over half of the global GDP, \$44 trillion, is potentially threatened by nature loss.”¹ Thus, there is no other issue that is as pressing as safeguarding humanity’s capacity to sustain life on earth. This can only be achieved if climate change and biodiversity loss are addressed effectively and simultaneously via transforming the economic system. As the financial sector is at the heart of the economic system, it has a privileged position to encourage, demand and create the necessary incentives for the transformation of the real economy. Substantial progress needs to be made to ensure that the financial sector genuinely supports businesses on their transition path towards sustainability.

There is no better place than Switzerland to kickstart this reflection. Switzerland boasts an important financial sector (managing over CHF 6200 billion²), a long-standing tradition in sustainable finance, an innovative market space, lean framework conditions and excellent universities. Furthermore, Switzerland is known for its attributes such as excellence and competence. Lastly, reducing the negative environmental impacts of financial flows is associated with a number of economic and social benefits such as increased financial stability, equivalence with EU legislation and protection of consumers against greenwashing.

Despite this excellent initial position, the sustainable finance debate in Switzerland is still characterised by a number of contrasting views with regards to the purpose that sustainable finance should serve (e.g. competitiveness of the financial sector vs. contribution to sustainability goals), the scope it encompasses (e.g. ESG vs. climate change), the business lines it focuses on (e.g. lending vs. investment) and the type of intervention that is required or desirable (e.g. regulation vs. voluntary action).

The authors claim that financial flows should, first and foremost, serve to create a green and resilient economy. To achieve this, all financial flows (investment, lending and underwriting business) managed or controlled by Swiss financial institutions need to follow a well set out and measurable transitional pathway to achieve net zero greenhouse gas (GHG)³ emissions and fully recover biodiversity by no later than 2050. This basically means translating the scientific findings on climate change and biodiversity loss to the financial sector. Building the economy of the future and making our financial system greener and more resilient does not happen overnight and requires the buy-in of all relevant sustainable finance actors.

PwC and WWF therefore suggest that until 2030 the combined efforts are geared towards creating a net zero GHG-emitting and full biodiversity-recovering real economy. The financial sector plays a pivotal role in this transformation by reducing its exposure to high-emitting economic sectors and activities, by engaging vigorously with the invested companies and policymakers and by creating new financial vehicles for a net zero, biodiversity-recovering economy. But the financial sector also depends deeply on the transformation of the real economy, which currently is far from being climate- and biodiversity-friendly. At the same time, the transformation needs to be based on ambitious, practical measures for the financial sector and a clear policy framework (common standards for defining sustainability, sustainability disclosure requirements and sufficient granular data). Therefore, the authors suggest that until 2030 the negative impacts on climate and biodiversity should be decreased, acknowledging that GHG emissions and biodiversity destruction will continue, albeit at a slower growth rate. To reverse this trend, it is imperative that from 2030 onwards all new financial flows or refinancing activities emit net zero GHG and restore and enhance biodiversity. This creates a second strong, necessary push to achieve the final goal by 2050. Furthermore, it gives the real economy until 2030 to adapt and transform towards the set-out goal.

The years until 2030 are crucial to set the stage and start moving in the right direction. Missing this window makes it almost impossible to reach the formulated goals in time. To kickstart this transition, all actors (financial institutions, federal administration, industry associations, policymakers and civil society) need to join forces and push in the same direction. Focusing solely on voluntary measures by market players falls short, given that the Swiss financial sector is way off track

from meeting global environmental targets.⁴ The sheer size of the challenge at hand also requires clear and predictable policy signals and regulatory framework conditions, which should be complemented by ambitious, targeted self-regulation. A smart mix of measures is therefore most likely to produce the desired outcomes. The authors propose to place the short-term focus on the following leverage points, which in their view are the most impactful:

| | |
|-------------------------|--|
| Leverage point 1 | Turn Switzerland’s political commitment to net zero GHG emissions by 2050 into a legal obligation for financial actors and set a political goal for aligning financial flows with full biodiversity recovery. |
| Leverage point 2 | Revise the fiduciary duty such that financial actors and regulators need to integrate the financial risks associated with climate change and biodiversity loss and are responsible for minimising the negative impacts of financial flows on climate and biodiversity. |
| Leverage point 3 | Promote meaningful metrics for climate- and biodiversity-related financial risks and impacts and define clear standards determining what can be considered climate- and biodiversity-friendly and unfriendly. |
| Leverage point 4 | Request real economy companies and financial actors to establish measurable strategies and targets for reducing GHG emissions and negative biodiversity impacts and to disclose their climate- and biodiversity-related financial risks and impacts. |
| Leverage point 5 | Rapidly align asset owners’ and banks’ investment, lending and underwriting portfolios with net zero GHG emissions and full biodiversity-recovery pathways and adjust capital requirements for banks and (re-)insurers accordingly. |
| Leverage point 6 | Advocate for correctly pricing negative climate and biodiversity externalities and for adopting preferential tax policies for climate- and biodiversity-friendly activities, thus facilitating the transition to a green and resilient economy. |



¹ <https://www.weforum.org/reports/new-nature-economy-report-ii-the-future-of-nature-and-business>

² https://www.six-group.com/exchanges/download/about/div_pub/ssx_financialcenter_en.pdf

³ In this paper we consistently use the term “greenhouse gas emissions”, which broadly refers to gases that trap heat in the atmosphere. There are several types of GHGs with different global warming potentials, with CO2 being the most important GHG.

⁴ Current estimates by the Federal Office for the Environment (FOEN) indicate that the Swiss financial flows contribute to global warming of between 4 and 6 degrees Celsius.