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Department of Banking and Finance
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An aerial photograph of Zurich, Switzerland, showing the city's dense urban landscape, the Lake of Zurich, and the surrounding mountains under a clear blue sky. The image is used as a background for the report cover.

SUSTAINABLE FINANCE CAPABILITIES OF PRIVATE BANKS

REPORT #1: INTRODUCING THE FRAMEWORK

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About the Center for Sustainable Finance and Private Wealth (CSP)

The Center for Sustainable Finance and Private Wealth (CSP) is a research and teaching unit at the Department of Banking and Finance (DBF) of the University of Zurich in Switzerland. CSP (1) engages in multidisciplinary research to explore fundamental issues and current dynamics in sustainable finance and (2) uses the insights from its research to advance the understanding of sustainable finance within the private wealth eco-system. The goal of the CSP is to activate private wealth and sustainable finance, at scale, as a substantial driver for sustainable development.

More information at www.csp.uzh.ch

FOREWORD

The last 30 years have brought four developments that form the basis of this report and of our work at CSP:

1. **Capitalism:** Financial markets have become the “brain of the economy” (Mishkin, 2006)
2. **Wealth concentration:** More than USD 110 Trillion, or about 50% of the world’s wealth, has become concentrated amongst about 0.7% of the global population, namely those people who own more than USD 1 million (i.e., millionaires and billionaires) (Credit Suisse, 2016)
3. **Sustainable Finance:** Strong flows of capital into a range of investment approaches that include environmental, social and corporate governance (ESG) aspects in the investment process (GSIA, 2014)
4. **Un-sustainability:** Humanity today faces a host of threats to the planetary systems that are essential to human existence (Steffen et al., 2015)

Combining these four developments into one sentence brings about a key **question** for us: In our (1) capitalistic system, could the deployment of (2) today’s substantially concentrated private wealth into (3) sustainable finance mechanisms provide a critical contribution to solve (4) humanity’s social and environmental challenges?

In that regard, it is encouraging that our conversations, research and teaching work with more than 200 wealthy private investors, private banks, and family offices point to a substantial **opportunity**: Private wealth owners are increasingly interested in Sustainable Fi-

nance, to build financially attractive investment portfolios, change the world for the better, and achieve both goals simultaneously.

However, we also observe a substantial **challenge**: Our work with wealth owners identifies advisors within private banks as a barrier to the dissemination of information and clarity related to the availability and quality of sustainable finance solutions (Paetzold & Busch, 2014).

As such, private wealth owners approached us with the need for a robust **framework** and a **platform** that helps them to better **understand the sustainable finance capabilities of private banks**. At the same time, private banks have asked us to help them understand the demands of private wealth owners with regard to sustainable finance, as well as their own strengths and areas of potential improvement in order to match these requirements.

Therefore, in response to requests from wealth owners, this project establishes a platform that profiles the sustainable finance capabilities of private banks.

At the same time, this project serves as a neutral channel to engage relevant market participants and open up an active dialogue on how to improve private banks’ sustainable finance advisory practices and enhance their service offerings.

This report marks the initiation of a long-term project for the Center for Sustainable Finance and Private Wealth (CSP). We welcome your feedback and hope that you will join us in this important effort.

Towards impact,



Dr. Falko Paetzold
Managing Director



Tiffany Chen
Fellow



Taeun Kwon
Fellow

INTRODUCTION

In our research and training work, many wealth owners have told us that they and their families want to allocate substantial amounts of investment capital to sustainable finance means, but that they find it difficult to implement their sustainable finance interests in practice.

We are often asked the following **questions**:

1. “My advisor tells me that the bank does not offer sustainable finance solutions. Is that so?”
2. “How can I understand my bank’s capabilities in sustainable finance? What should I expect?”
3. “What are the capabilities of other banks in sustainable finance? How do banks differ?”
4. “Can you give me a tool to understand what matters for us and how our advisor can match these needs?”
5. “How can we think about capabilities that our own private wealth management entity should build up?”

In response to these questions, this project takes the perspective of private wealth owners to develop a framework and a platform to make the sustainable finance capabilities of private banks transparent and comparable.

With that goal in mind, the three key **objectives** of this project are as follows:

1. **Consolidate** insights from experienced wealth owners and experts into a **framework** that makes the sustainable finance capabilities of different private banks **transparent**
2. Help wealth owners to **understand** and **compare** the sustainable finance capabilities of private banks, thus enabling them to more successfully implement their desired sustainable finance strategies
3. Provide **guidance** for private banks to increase the efficiency of their sustainable finance operations

This report summarizes the outcomes of the first phase of this project, which was initiated mid-2017. We outline the project **scope** and **process** (pages 5–7), and present the resulting **framework** of what constitutes private banks’ sustainable finance capabilities (page 9).

We show the result of the **pilot** application of the framework with four private banks, and present a brief **conclusion**. In the **Appendix**, we provide the **questionnaire** behind the framework. We modified the questionnaire to serve as a “**Cheat Sheet**” that we encourage wealth owners to use in conversations with their banks (Appendix 1).

“The demand for investments that incorporate economic as well as environmental and social aspects in addition to generating financial returns is rising steadily.”

Head of Sustainable Investments, Bank A

PROJECT SCOPE

DEFINING SUSTAINABLE FINANCE

A spectrum of terms describes the practice of integrating social, environmental, governance and/or ethical aspects into investment decisions. From ethical investing and value investing, so-called for its religious roots, to social investing, green investing, and sustainable investing: Sustainable finance has no shortage of synonyms. There are even variations for what the relatively widely used acronym “SRI” stands for, ranging from socially responsible investment to sustainable and responsible investment.

In the face of such diverse terms, the Center for Sustainable Finance and Private Wealth uses the phrase “sustainable finance” to: a) capture the full range of sustainability-related aspects, including ESG factors, ethical and moral aspects; and b) capture the full range of “finance”, including investment practices as well as other functions, such as lending, advisory, or insurance services.

These sustainability aspects can be integrated into investment decisions with varying intensities of integration. The resulting investment strategies depend on investors’ financial and impact objectives as well as their

risk appetite. The range of sustainable finance strategies is classified into 6 categories in this project (Figure 1). It ranges from more passive approaches (i.e., negative screening based on products or services of firms, their business practices, or violations of standards or norms) to active approaches in terms of intentional impact generation and -measurement (i.e., impact investing).

SELECTED BANKS

The ultimate goal of this project is to provide a platform that profiles private banks’ sustainable finance offerings at a global scale. We recognise that different regulatory frameworks impose different restrictions on products and advisory practices. Hence, during the initial phase of this project, we limit the assessment to the Western European private banking sector, to best achieve like-for-like comparative analysis.

We are interested in a private bank’s sustainable finance offering as determined primarily by its business model and strategy rather than its size. As such, we do not exclude or discriminate against banks by AUM (Assets under Management) size. We focus on private banks, and select wealth managers, that:

		SUSTAINABLE FINANCE							
Strategies	Traditional investment	Negative (exclusionary) screening	Positive (Best-in-class) screening	ESG Integration	Active ownership	Thematic investments	Impact Investing	Venture philanthropy	Traditional philanthropy
Approaches	Investing for the sole purpose of generating financial return	Avoid certain types of investment (tobacco, weapons etc) due to considerations of moral values. Aka. Responsible Investing	Selected assets with high ESG performance. Aka. Sustainable Investing.	Systematic and explicit inclusion of ESG risks and exercising ownership rights to effect change	Enter into dialogue with companies on ESG issues and exercising ownership rights to effect change	Investment that is based on sustainability themes such as clean-tech or sustainable forestry.	Investments made in firms/projects with the intention to create both financial and social/environmental return	Funding a range of social-purpose organization using venture-capital approach, through a mix of grants and investments; and to be catalytic. Build self-sufficient organisations	Grant based funding of social purpose organizations
Impact objectives	No impact objectives	Focus on ESG risks for moral or ethical reason. Political/societal/economic signalling	Create demand for ESG data. Motivate change/support leaders and punish laggards. Signalling		Active and direct influence on company management. Signalling	Generate positive impact on specific environmental / social issue	Intention of generating social & environmental impact, pursuing positive externalities	Willing to accept financial trade-off for social impact	Focus on where no market solutions are possible
Financial return	Market return						Below market return, or “off market”	Financial loss	
Social return				Proactive, measurable Impact					

Figure 1: Continuum of sustainable finance strategies (black font; themes in orange font display adjacent strategies)

INSTITUTIONS	PB AUM (US\$B)	HQ	BREADTH OF SERVICES								
			Conventional Investments	Sustainable	Lending	Insurance	Retirement planning & Trust	Life-Cycle Tax Planning	Family office	Non-financial asset acquisition	Philanthropic planning
UBS	1733	Switzerland	✓	✓	✓	✓	✓	✓	✓	✓	✓
Credit Suisse	687	Switzerland	✓	✓	✓	✓	✓	✓	✓	✓	✓
Deutsche Bank	396	Germany	✓	✓	✓	✓	✓	✓	✓	✓	✓
BNP Paribas	357	France	✓	✓	✓	✓	✓	✓	✓	✓	✓
Julius Baer	298	Switzerland	✓	✓	✓	✓	✓	✓	✓	✓	✓
HSBC	261	UK	✓	✓	✓	✓	✓	✓	✓	✓	✓
Pictet	239	Switzerland	✓	✓	✓	✓	✓	✓	✓	✓	✓
Barclays	226	UK	✓	✓	✓	✓	✓	✓	✓	✓	✓
ABN Amro	217	Netherlands	✓	✓	✓	✓	✓	✓			
Santander	205	Spain	✓	✓	✓	✓		✓	✓		
Safran Sarasin Group	194	Switzerland	✓	✓			✓				
Credit Agricole	165	France	✓	✓	✓	✓					
LGT	152	Lichtenstein	✓	✓	✓	✓	✓	✓			✓
Societe Generale	119	France	✓	✓	✓	✓	✓	✓	✓	✓	✓
Intesa Sanpaolo	93	Italy	✓	✓	✓	✓		✓			✓
Rothschild	67	Switzerland	✓	✓	✓		✓	✓			✓
Vontobel	40	Switzerland	✓	✓	✓	✓	✓	✓	✓		✓
Lombard Odier	25	Switzerland	✓	✓			✓	✓	✓		✓
Triodos	4.4	Netherlands		✓	✓						
Pury Pictet Turrettini	N/A	Switzerland	✓	✓		✓	✓	✓	✓		✓
Tribe Capital	N/A	England		✓							
Globalance	N/A	Switzerland		✓					✓		
BBVA	N/A	Spain	✓	✓	✓	✓		✓			
La Caixa	N/A	Spain	✓	✓	✓	✓				✓	✓
Mirabaud	N/A	Switzerland		✓	✓	✓		✓			

Figure 2. Profile of selected Western European private banks (PBs)

Note: Conventional Investing includes Tracker-related products, structured products, alternative investments and real estate investments.

Source: Euromoney 2016, Scorpio Partnerships 2016, CSP.

- Target and service the HNW and UHNW client segments¹
- Are headquartered and have their largest private wealth management operations (in terms of revenue, AUM and number of staff employed) in Western Europe²
- Offer at least 1 type of sustainable finance product
The goal is to identify the relevant private banks and create a comprehensive universe of samples that are representative of the current industry landscape. Hence, we apply a theoretical sampling approach and have compiled the list of banks by using major private banking surveys (such as Eu-

romoney) and by consulting a panel of experts and asset owners. By applying the three criteria above, we have narrowed down the number of private banks to the 25 institutions listed below. The list provided in Figure 2 is not exhaustive but it provides a comprehensive sample of the marketplace.

¹ We classify HNW / UHNW clients as asset owners with at least US\$1/30 million of liquid, investable assets.

² For banks with global operations across different geographical regions (i.e., UBS and Credit Suisse) we include product offerings and services available in European operations. A limitation includes the fact that these might not be available in each European market.

PROJECT PROCESS

STAGED LONGITUDINAL STUDY

This project is designed to be a longitudinal study that will be carried out in stages over time.

- **Pilot Stage (Completed):** During the iterative pilot stage of the study, the methodology was developed with key actors and was piloted with a small number of banks for two primary purposes:
 - a. **Develop the framework** – propose and discuss a framework with wealth owners, industry experts, bank representatives and scholars, to iteratively develop the version tested in the pilot test-run
 - b. **Test-run the methodology** – perform a reality check on the robustness of indicators, refine wordings to extract more accurate and consistent responses, and identify potential hurdles and difficulties regarding the platform-population process of the following project phases
 - c. **Provide a snapshot of the current breadth of product and service offerings** – pilot phase results are presented anonymously, but nevertheless provide information on common product and service offerings

- **Stage One:** Platform will be rolled out across all Western European banks identified for this study to establish a comprehensive overview that profiles private banks' sustainable finance offerings (see a draft version of a profile per bank in Appendix 2)
- **Stage Two:** Repeated platform data consolidation processes will be conducted on an annual basis. Greater focus will be placed on integrating data verification process and analysing banks' service offering development over time, as well as incorporating HNW and UHNW client inputs.

FRAMEWORK DEVELOPMENT

Third-party input panel: To ensure the thoroughness, legitimacy and relevancy of the framework applied to profile banks' sustainable finance capabilities for asset owners, we engaged with three main segments of relevant third-party stakeholders (Figure 3): experienced wealth owners, private banks, and industry experts. We consolidated and applied their insights to iteratively develop the profiling framework.

Wealth owners included those who frequently engage with private banks and actively manage their assets in sustainable finance strategies. For privacy reasons, not all wealth owners are named in the table below. Industry experts ranged from NGO management to consultants, banks and industry networks. The list of input panel participants is provided in Figure 4. Further input was collected in CSP-internal workshops.

The profiling framework was developed following discussions on key topics such as:

- What are the major criteria for investors when working with their advisors on sustainable finance
- What further information would investors like to have regarding the banks' sustainable finance capabilities
- What are the common difficulties encountered by asset owners in the investment implementation process

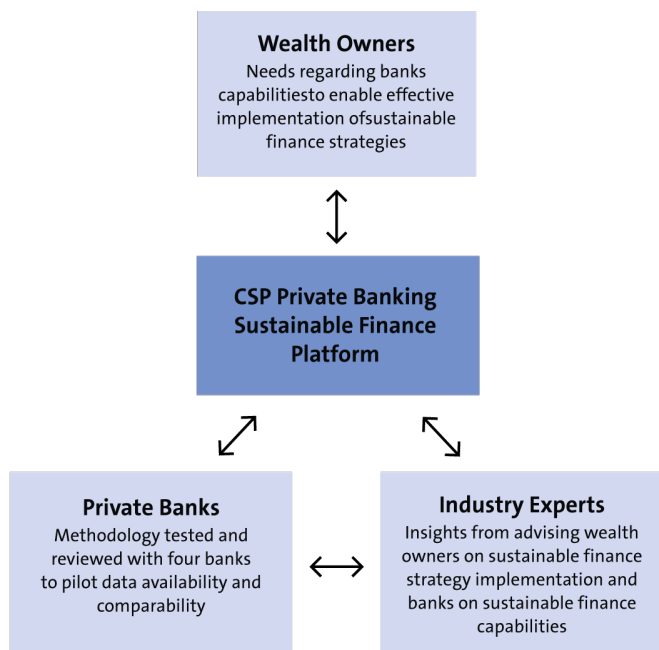


Figure 3. Third-party stakeholder groups that provided input for the framework development

ASSET OWNER GROUP	CONTACTS
Blue Haven Initiative	Lauren Cochran, Managing Director
Private Wealth Owner	Antonis Schwarz, Principal
Private Wealth Owner	Fernando Scodro, Principal
Private Wealth Owner	(Principal; name not publicly disclosed)
Private Wealth Owner	(Principal; name not publicly disclosed)
Private Wealth Owner	(Principal; name not publicly disclosed)
RS Group	Katy Yung, Senior Director
The ImPact	Sam Bonsey, Senior Director
INDUSTRY EXPERT GROUP	CONTACTS
onValues	Dr. Ivo Knoepfel, CEO
Responsible Impact Investing	Dr. Ingeborg Schumacher, CEO
Swiss Sustainable Finance	Sabine Döbeli, CEO
UBS	Dr. James Gifford, Head of Impact Investing, Wealth Management
WWF Switzerland	Britta Rendlen, Head Sustainable Finance; Claude Amstutz
Credit Suisse	Luciana Lucena de Lima, Senior Investment Consultant

Figure 4. Constituents of the third-party input panel

Note: Constituents are supporting this document in their personal capacities; organizational affiliations are listed for identification purposes only

SUSTAINABLE FINANCE CAPABILITY PROFILING FRAMEWORK

We applied an iterative process of seeking and processing third-party panel inputs, and piloting the project with four banks that are outlined as anonymous “blind profiles” below. We developed the following framework to collect, process, and profile private banks’ sustainable finance capabilities.

CAPABILITY CATEGORIES

The profiling framework adopts a holistic approach and analyses the private banks’ sustainable finance capabilities across three main categories:

- 1) Sustainable Finance Vision
- 2) Investment product offering
- 3) Advisory process & execution efficiency

The three main categories are each comprised of sub-categories (see Figure 5) that integrate a number of questions designed to assess both qualitative and quantitative aspects of the banks’ capabilities. For each sub-category, the banks are given a score after their response is assessed against a pre-defined scoring scheme.

The scheme ranges from the lowest score of 1 (characterising typical traits of a bank that is not yet integrating sustainable finance across its operations) to the highest score of 5 (characterising typical traits of a bank that is fully integrating sustainable finance across its operations). The questionnaire can be found in Appendix 1.

SCORING SYSTEM

We believe blending all scorings into one single score would be too simplistic and could potentially misrepresent the bank’s strengths and weaknesses across different categories. Instead, we present the score at the sub-category level by aggregating the equally weighted scores for each question within the sub-category. This is aligned with this project’s goal of helping asset owners to better understand each bank’s strengths and to find their most suitable advisor.

DATA COLLECTION & VERIFICATION

The scoring and data collection are conducted through desk research, conversations with HNW and UHNW clients, and – most importantly – through face-to-face interviews with Sustainable Finance staff at the banks. This allows us to most effectively engage with the banks,

include qualitative inputs on a bank’s approaches towards implementing sustainable finance strategies, and to obtain a comprehensive set of information.

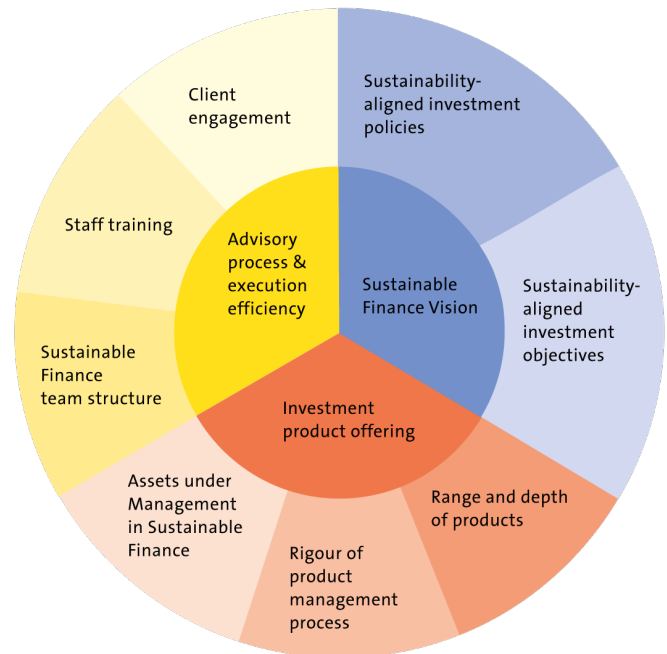


Figure 5. Sustainable Finance capability profiling framework

In terms of process order, the data is first collected from private wealth management division’s sustainable finance experts. The data quality and accuracy will then be validated in later stages of the project through multiple channels including: 1) desk research using publicly available information; 2) interviews with multiple stakeholders within the banks, such as client advisor team-heads, to allow for consistency in responses and to understand the thoroughness in implementation of advisory practices; and 3) feedback from clients of the private banks drawing from our deep and broad network of wealth owners.

RESULTS AND ANALYSIS OF THE PILOT

For the pilot phase, we engaged with a sample group of four private banks based in Europe. In this initial pilot phase the four cases are displayed as anonymous blind-cases. To select the banks, we followed the approach of theoretical sampling, thereby selecting banks that cover the breadth of the banking spectrum. The pilot sample ranges from a very large, global “mainstream” bank to small, regionally- and topic-focused boutique banks.

OVERVIEW

The overall results of the pilot scoring are presented in Figure 6 below, which summarises the scores of the sector average and the highest scores of a bank across each sub-criterion. Using these results, we observe that the variance between the sector average and highest scores across categories, such as Staff Training, Client Engagement and Invested Assets under Management (AUM), suggests that there is, on average, a disconnect in the private banking sector between a rather high level of investment policy aims and product availability on one hand, and the rather low level of actual on-the-ground implementation of policies and strategies, in particular with regards to client engagement and invested AUM.

For a better understanding of the different strengths of different business models in sustainable finance, we broadly categorise banks across 2 profile axes, based on discussions with a sample group of four private banks based in Europe:

1. **Size:** AUM of the selected private banks ranges from below CHF 1 billion to above CHF 200 billion.
2. **Advisory model:** Ranges from Non-integrated Advisory Model, which separates sustainable and conventional finance capabilities and offers sustainable investments as distinct products on its platform, to Integrated Advisory Model, which systematically integrates sustainable finance capabilities in each part of the advisory process (including investment selection, portfolio construction and return measurement) and offers a holistic, broad and deep suite of sustainable finance products on its platform.

When analysed according to the types of bank, we observe that larger banks (represented by sample bank A)

might focus on more audacious investment policies, and leverage both an open product platform as well as significant product development capabilities, together with in-house sustainable finance teams. Yet they struggle with staff training and client engagement, and have rather low relative amounts of client assets invested in sustainable finance.

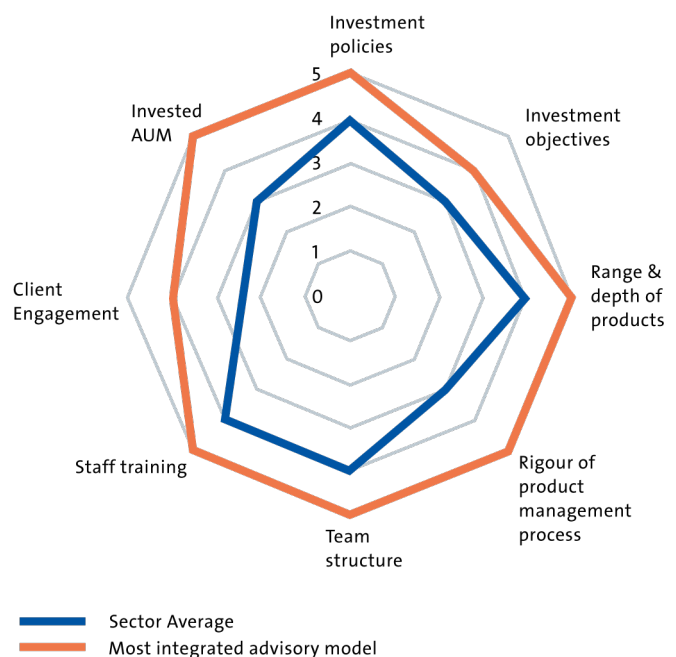


Figure 6: Sector average & most integrated advisory model

Mid-sized private banks (sample bank B) might tend to leverage the use of an open product platform architecture to compete in the quantity and range of products offered, yet struggle with setting up clear Sustainable Finance policies, team structures, and client and staff engagement programs.

Private banks focused more on sustainable finance (sample banks C and D) mark the upper boundaries of the capabilities display framework. Their business models integrate sustainable finance across multiple dimensions, while the test case of smaller-sized bank D points to the potential limitations in product availability of such smaller platforms.

Overall, we point to initial archetypes of banks by size and the unique strengths and characteristics of private banks' sustainable finance capabilities. A first indicative

illustration is provided below in Figure 8. The individual blind profiles of banks are displayed in spider charts that are included in the appendices (see Appendix 2).

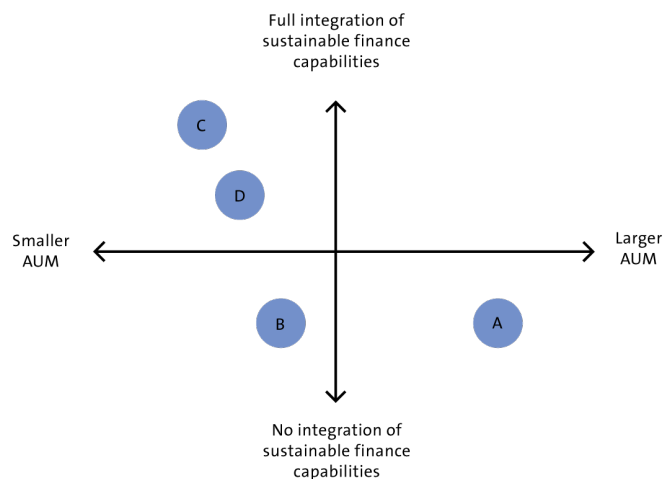


Figure 7. Profile of banks participating in pilot assessment

SUSTAINABLE FINANCE PRODUCT OFFERING

We display a bank's sustainable finance product offerings across two sub-criteria, namely: 1) Range of products; and 2) Rigour of product management process. The analysis focuses explicitly on products that a bank offers AND into which client capital has been invested over the past 2 years.

Product range. A bank's investment product offering depends not only on its in-house product development capability but also on the type of product platform it operates. A number of the pilot banks operate an open platform architecture, which theoretically provides client access to all external third-party products available on the market. To accurately quantify the number of products in which client capital has been deployed requires greater resources and is planned for later phases of this project. For the purpose of providing initial insights (and despite the limitations), our analysis on product quantity and depth is focused on investment products that are created either entirely through the bank's in-house team or in partnership with third party specialists.

When we aggregate the results of the 4 sample banks, the most readily available sustainable finance solutions by asset class are public equity or debt products (>75% of total number of products available), which is congru-

ent with the current product market situation. Private equity and debt products follow, while investment solutions in real assets (including real estate and infrastructure) are most limited. Product availability is largely evenly distributed by sustainable finance approach. This includes products using more passive approaches such as Negative screening (e.g., exclusion of tobacco, weapons) or Positive screening/Best-in-class (cut-off of investments with low ESG ratings). Also available are products that include the integration of environmental, social, governance (ESG) data into investment processes, as well as Thematic investments (e.g., focused on water, renewable energy). There are also products using active approaches, such as Impact Investment (i.e., focused on intentional and measurable impact), while Active Ownership (i.e., voting shares and engaging with investee management) products are less/not available amongst our pilot sample.

Rigour of product management process. We believe the quality of product management processes is as important as product range. A rigorous and thorough product management process should ultimately lead to achieving (a) more AuM in Sustainable Finance solutions, and (b) greater social and environmental impact. We evaluate the rigour of a process across two main areas: 1) additional services the banks provide specific to the product category (i.e., asset class and investment strategies); and 2) measurement and communication of impact created through investments.

"Sustainable finance is integrated throughout our investment approach. For us, here is no real distinction between mainstream and sustainable finance."

Head of Impact Research, Bank C

The biggest variance in terms of the rigour of product management can be marked by active ownership engagement and impact measurement between banks that have an integrated advisory model and banks that have a non-integrated advisory model: Banks with an integrated advisory model had clear engagement policies carried out by internal staff and supported by external specialists. Banks without an integrated advisory model did not have a formal process for engagement and resorted to standardized proxy voting.

Similarly, in terms of impact measurement, banks with an integrated advisory model had a rigorous measurement system in place regardless of asset class or investment strategy, while those with a non-integrated advisory model had limited measurements on selected products, which were not communicated for all portfolios. We have attached a table summarizing typical responses related to the product management process for each bank archetype (see Appendix 3).

ADVISORY PROCESS & EXECUTION EFFICIENCY

We assess a bank's sustainable finance advisory process and execution efficiency across four sub-criteria, namely: 1) Team structure; 2) Staff training; 3) Client engagement; and 4) Invested AUM.

Team structure. We observe that the robustness of a bank's processes is to a large degree driven by the organisational structure, which is itself a function of the bank's advisory model. In the appendix (see Appendix 4) we provide an overview of two representative structures of the Non-integrated and Integrated Advisory Models that we observed in the pilot assessment phase.

The *Non-integrated Advisory Model* tends to have more business divisions within which a proportion of sustainable finance dedicated staff are integrated. The multi-layered structure implies that each division is more specialised in its respective function. This also requires more levels of interaction, and allows for less direct communication in the advisory process.

The *Integrated Advisory Model* tends to have a leaner structure in which each employee role across different divisions is designed and defined around the company's core sustainable finance vision and strategy.

Staff training & client engagement. We recognise that different banks have varying strategic focuses and

needs, and we do not view one operating model as superior to any other.

Nevertheless, it is not surprising that banks with a more integrated model that includes sustainable finance approaches throughout its advisory process scores more strongly across most measurement metrics.

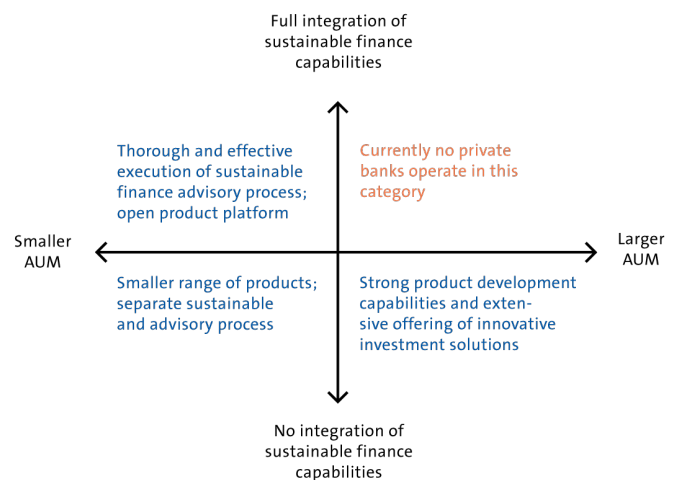


Figure 8: Indication of archetypes by size and level of integration

Particularly noticeable is the more extensive and rigorous training conducted on sustainable finance for internal staff, as well as advisors' interest in and willingness to engage with clients on the topic of sustainable finance. We note however, that, of course, clients who approach the sustainability-oriented private banks naturally tend to be more open-minded, receptive and willing to engage on the topic of sustainable finance.

Invested AUM. In our view, strong sustainable finance offerings across various measures should ultimately translate into higher amounts of sustainable finance as a percentage of the bank's total AUM. Nevertheless, this descriptive statistic should be interpreted with caution. Theoretically and ideally, the distribution of a bank's total AUM across conventional and sustainable finance should be driven by clients' interests, the desired tactical asset allocation, and corresponding product availability.

100% allocation in sustainable finance is possible and feasible as shown by the portfolios of the family office RS Group and the KL Felicitas foundation. Yet it is not necessarily the best outcome if it is not aligned with the

product availability on the bank's platform and/or client interests. It is therefore unsurprising to find that sustainable finance as the percentage of the bank's total AUM varies significantly between different types of banks. For non-integrated private banks, the proportion ranges from <5% to 20% of total AUM. Private banks with integrated models, in which all investments are selected on behalf of clients sustainable finance interests, achieve up to 100% of total AUM.

Nevertheless, a single statistic quantifying the absolute or relative amount of sustainable finance is, in itself, an insufficient indicator. Instead, we believe a combination of measures, including the changes over time of asset allocation across traditional and sustainable finance, will provide better quality information. In this respect, we observe that overall the private banking sector has been steadily and rapidly growing sustainable finance assets under management relative to traditional investments assets, if off a low base. We have added typical answers related to the advisory process as Appendix 5 at the end of the report for further details.

“While the question regarding clients’ desire to include sustainable finance is integrated in the advisory procedure, client advisors are still not interested and do not ask the question consistently.”

Product Manager, Bank B

CONCLUSION

This project's initiation report for the profiling of European private banks' sustainable finance capabilities leads to the initial observation that there is a pattern to banks' unique strengths and weaknesses. Such variance in capabilities is, to a large degree, dependent on the bank's advisory model.

Overall, banks with a more integrated model, where sustainable finance approaches are systematically integrated in the advisory process, are leading the game and have the strongest sustainable finance product and service offerings. These banks today are typically smaller in size, and therefore tend to rely on the use of open-product platform architecture to widen their product range. In comparison, banks with a less integrated advisory model, where sustainable and conventional finance approaches are separated, may have thoroughly defined sustainable finance policies that govern investment processes, but often fail to translate these policies into effective execution strategies, subsequently compromising their service offerings. Nonetheless, these banks are typically larger in size and have the resource advantage to innovate or develop a more extensive range of products through in-house product development teams.

The disconnect between banks' high-level sustainability vision and the actual implementation of policies appears to be one of the main bottlenecks inhibiting traditional private banks from optimising their service offerings for Sustainable Finance. There are likely multiple factors that could cause this situation. While diagnosing industry barriers is not the focus of the report, based on insights obtained through interviews and the

analysis for this report, we would highlight two potential explanatory factors:

The first factor pertains to the complexity of a bank's organisational structure. Communications of high-level sustainability visions are often diluted and the transfer of knowledge from product specialists to client advisors is also more easily lost within an organisation with a multi-divisional and multi-layered structure. The second factor pertains to competing priorities and product focus. This is particularly evident in banks operating a non-integrated advisory model, where sustainable finance approaches are positioned as separate from conventional investments, competing for the limited product development resources and advisors' time. Both factors are likely to contribute to the apparent lack of knowledge and buy-in from client advisors, which subsequently prevents private banks from better understanding and servicing clients' investment requirements.

It would be fair to conclude that there is currently a mismatch between clients' needs and private banks' service offerings regarding sustainable finance. The situation is amplified by the general lack of sustainable finance information amongst wealth owners. Ultimately, this is a reciprocate process that requires the engagement of both clients and advisors. On the one hand, asset owners have the right to understand their options and opportunities. By asking more questions using the right framework, asset owners will be able to more quickly identify the right solutions and encourage transparency. On the other hand, private banks have a responsibility to more thoroughly review their operational focuses and processes to align the interests of different

stakeholders. This will allow banks to more effectively implement strategies, enhance service offerings, and better service clients' needs and requirements.

Through conducting the pilot, we have established that the developed framework provides a good understanding of the sustainable finance capabilities of private banks with different business models. The framework provides a holistic but practice-oriented view of the banks' offering. While we intend to use the framework in our next steps to get a deeper understanding of the industry as a whole, this framework can be used both by wealth owners to question their own banks to get a better understanding of their sustainable finance offerings, and also by banks that would like to do a health check internally to improve their offerings.

Finally, as outlined at the beginning of this report, and reconfirmed throughout the process of developing this capabilities identification framework: We observe significant interest, both latent and explicitly voiced, in Sustainable Finance by HNW and UHNW clients of private banks. The product availability seems to be quite well developed, yet the actual ability of larger and mainstream banks to engage both their advisors and clients lacks behind. Hence, we see a major opportunity for wealth owners and banks, as well as society at large, in the fast and thorough implementation of Sustainable Finance capabilities by more wealth owners and more private banks for larger chunks of their assets. With this project, we look forward to providing a thoroughly rigid and highly relevant, real-world applicable platform for the advancement of this process.

“When I changed my advisor I realised the breadth of Sustainable Finance solutions that are out there. Incredible that I hadn't been told that before, I had really no interest to interact much with my portfolio before then.”

Private Wealth owner anonymous nr. 3

APPENDICES

APPENDIX 1: CAPABILITY IDENTIFICATION QUESTIONNAIRE & CHEAT SHEET FOR ASSET OWNERS

Criteria	SUB-CATEGORIES	Questions
A. Investment policies & objectives	A1. Sustainability-aligned investment policies	*A1.1. What are the bank's group-wide sustainability policies and are they available to the public? Please provide policy document if possible. Answer:
		*A1.2. Who is responsible for developing the bank's group-wide sustainability policies? Who (of the bank's senior management) has endorsed these policies? Please elaborate on the governance and implementation processes (i.e., participants and frequency of meetings to develop sustainability policies and strategy) if possible. Answer:
	A2. Sustainability-aligned investment objectives	**A2.1. What are the bank's sustainable finance objectives by 2018 year-end? What is its strategy / plan for reaching the target? Answer:
		*A2.2. How often are the objectives established and reviewed? Answer:
B. Investment product offerings	B1. Range & depth of products	B1.1. Quantity: How many sustainable finance products has the bank deployed client capital into over the past 2 years? Answer:
		B1.2. Range: Across what asset class and investment approach has the bank deployed client capital into over the past 2 years? Answer:
		** B1.3. Range: Across what asset class in thematic investment has the bank deployed client capital into over the past 2 years? Answer:
		B1.4. Depth: Please provide examples of «flagship products» and further details (size, innovation, measurable impact, etc.). Answer:
		B1.5. Depth: How do you assure clients have access to quality products (open architecture, selection process, partnership, etc.) and does it also back first-time funds? Answer:
	B2. Rigour of product management process	*B2.1. Public market products: Does the bank have a formal process for prioritising active ownership engagement activities on behalf of clients (including proxy voting) on listed equity investments? If so, please indicate any objectives and voting policies and whether this is carried out by internal or external staff. Answer:
		B2.2. Private market products: Does the bank have a formal process for identifying deals, performing due diligence, and structuring special vehicles to facilitate private market sustainable finance investments? If so, please provide details (including the type of ESG criteria) considered during the investment selection process. Answer:

		<p>B2.3. Product management: What is the average price difference between sustainable finance products and conventional products/services? If there is a difference, why? Please provide details on how sustainable finance product fees are estimated.</p> <p>Answer:</p>
		<p>*B2.4. Impact measurement: How has the bank tried to quantify the impact of its sustainable finance investment products offered over the past 2 years and what measuring methodologies are used? Please discuss the impact measurement on a product-by-product basis.</p> <p>Answer:</p>
		<p>*B2.5. Impact measurement: (follow-up) Of the products where impact is measured, is there an impact review and engagement process in place?</p> <p>Answer:</p>
		<p>B2.6. Impact communication: Has the impact made been communicated to clients? If so, in what form?</p> <p>Answer:</p>
C. Advisory process & execution efficiency	C1. Sustainable finance team structure	<p>C1.1. Does the bank have (an) investment team(s) dedicated to sustainable finance? Please explain (role descriptions, number of staff, team structure, etc.)</p> <p>Answer:</p>
	C2. Staff training & reward system	<p>C2.1. Does the bank have a sustainable finance dedicated training program for client advisers? Which department mandates the training program and what is the implementation process (i.e., Are the trainings rolled out across the entire bank? How quickly / frequently are trainings conducted? Does the bank partner with any field experts for these trainings?)</p> <p>Answer:</p>
		<p>C2.2. What is the approximate % of advisers who have received training and are currently qualified to advise clients on sustainable finance investment products?</p> <p>Answer:</p>
		<p>C2.3. Is there an incentive system that motivates client advisors to incorporate sustainable finance investments into portfolios where appropriate / relevant?</p> <p>Answer:</p>
	C3. Client engagement	<p>C3.1. How does the bank educate clients on sustainable finance? What educational workshops / publications has the bank offered to clients?</p> <p>Answer:</p>
		<p>C3.2. Is it mandatory for client advisors to ask in the advisory process whether the client wants to incorporate sustainable finance?</p> <p>Answer:</p>
		<p>C3.3. Is there a support system for client advisors who want to incorporate sustainable finance investments into portfolios? (proactively on the advisor's part or through the client's request)</p> <p>Answer:</p>
	C4. Invested AUM %	<p>C4.1. What is the amount of sustainable finance as % of total AUM? Of the capital deployed into sustainable finance, please provide a % split across different asset classes and investment strategies.</p> <p>Answer:</p>
		<p>C4.2. Momentum: How has the proportion of sustainable finance as % of total AUM changed over the past 3 years? Please provide descriptive statistics.</p> <p>Answer:</p>

* Questions overlapping with mandatory questions of Principles of Responsible Investment (PRI)

** Questions overlapping with voluntary questions of Principles of Responsible Investment (PRI)

APPENDIX 2: SUSTAINABLE FINANCE CAPABILITY MAPS FOR INDIVIDUAL BANKS

Below are the individual sustainable finance capability maps of each of the four banks that participated in the pilot phase of this project.



Bank A "Large-size Mainstream Bank"



Bank B "Mid-size Mainstream Bank"



Bank C "Mid-size Sustainable Finance Bank"



Bank D "Small-size Sustainable Finance Bank"

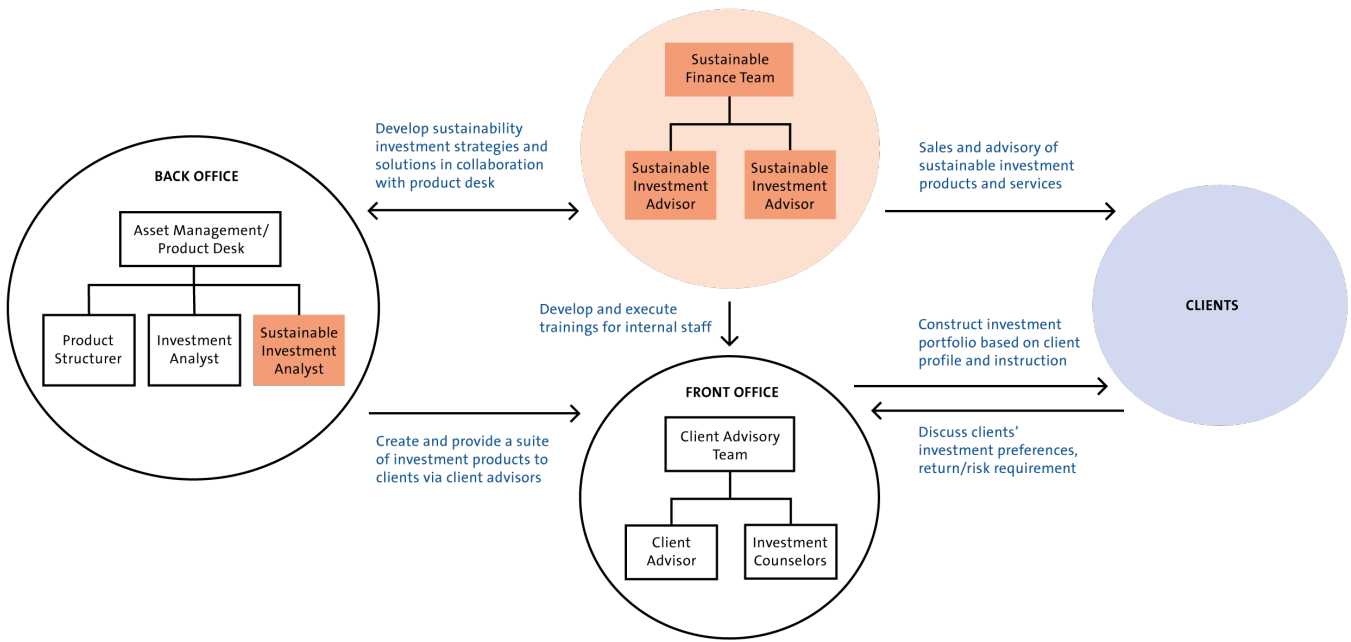
APPENDIX 3: SUMMARY OF TYPICAL RESPONSES ON PRODUCT MANAGEMENT PROCESS – BY TYPE OF BANK

The table below includes actual responses to questions related to the product management processes of the banks participating in the pilot study. The example responses are selected as illustrative examples to give richness to our analysis.

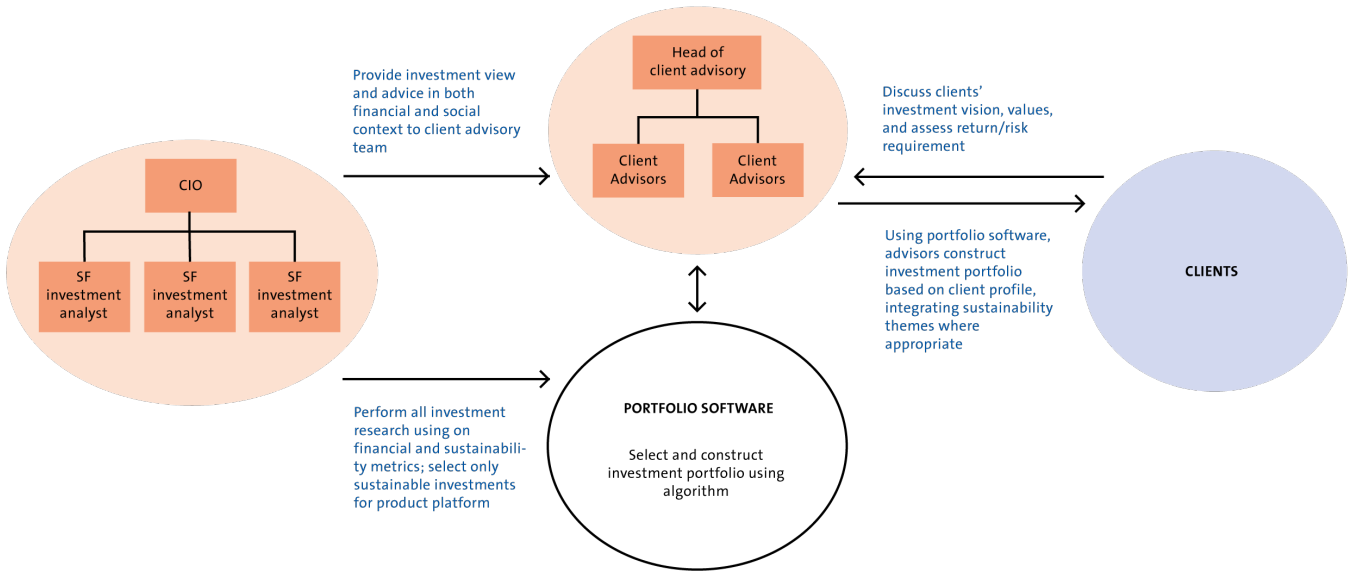
	Large AUM; Non-Integrated Advisory Model	Small AUM; Non-Integrated Advisory Model	Small AUM; Integrated Advisory Model
PRODUCT SPECIFIC CAPABILITIES & SERVICES			
Public market products: Does the bank have a formal process for prioritising active ownership engagement activities on behalf of clients (including proxy voting) on listed equity investments?	Active ownership engagement activities are not practiced and there is no formal process for prioritising these activities.	Active ownership engagement activities are not practiced and there is no formal process for prioritising these activities	Active ownership engagement is practiced wherever possible, and carried out by internal staff with the support of external specialists and partners.
Private market products: Does the bank have a formal process for identifying deals, performing due diligence, and structuring special vehicles to facilitate private market sustainable finance investments?	There are specific deal sourcing and due diligence processes in place, carried out by in-house specialist team	Has limited ability to invest in private market products	Due diligence is consistently carried out on private market products, some through in-house team and others indirectly through external partners
IMPACT MEASUREMENT			
Impact measurement: How has the bank tried to quantify the impact of their sustainable finance products and what measuring methodologies are used?	Some impact measurements are in place, but typically carried out by 3rd parties and on products developed with external specialists	Limited impact measurements in place	Rigorous measurement system is in place and impact is measured across all investment products regardless of asset class or investment strategy
Impact communication: Has the impact made been communicated to clients? If so, in what form?	Impact is communicated through investment reports, but only for selected products where impact has been measured	Impact is communicated on an ad-hoc basis through a one-off newsletter	Impact is measured on every client portfolio both at the aggregate and granular level. This is communicated actively through a real-time platform

APPENDIX 4: ORGANISATIONAL STRUCTURE OF NON-INTEGRATED AND INTEGRATED ADVISORY MODELS

These charts illustrate the different advisory model archetypes identified throughout the pilot study.



A representative organisational structure of the Non-integrated Advisory Model



A representative organisational structure of the Integrated Advisory Model

APPENDIX 5: SUMMARY OF TYPICAL RESPONSES ON ADVISORY PROCESS – BY TYPE OF BANK

The table below illustrates actual responses regarding the advisory processes of the banks that participated in the pilot study.

	Large AUM; Non-Integrated Advisory Model	Small AUM; Non-Integrated Advisory Model	Small AUM; Integrated Advisory Model
STAFF TRAINING			
Does the bank have a sustainable finance training program for client advisers? How is this implemented?	There are some trainings on sustainable finance, but this is not compulsory and is often conducted as part of other trainings	There are some trainings on sustainable finance, but this is not compulsory and is often conducted as part of other trainings	Sustainable finance dedicated trainings are provided on a regular basis, through formal and compulsory processes
What is the % of advisors trained and qualified to advise on sustainable finance products?	<5%	<5%	100%
CLIENT ENGAGEMENT			
What educational workshops / publications does the bank offer to clients?	Limited	Limited	Informal/formal trainings are provided and tailored to individual clients' needs and situations
Is it mandatory for client advisers to recommend sustainable finance products?	It is not mandatory for advisors to recommend sustainable finance products	No. Advisors also exhibit reluctance / a lack of interest to include sustainable finance in the conversation with clients	Yes. Sustainable finance approaches are integrated through the entire advisory process
Is there an incentive system that motivates advisors to incorporate sustainable finance into client portfolios where appropriate?	No	No	All investments selected for the product platform are technically sustainable so advisors' incentives are therefore, by default, aligned

APPENDIX 6: REFERENCES AND FURTHER RESOURCES

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Further resources

- Sustainable Investing: A Unique Opportunity for Swiss Private Wealth Management - Ten Arguments for Client Advisors. *Swiss Sustainable Finance (SSF)*, 2017.
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