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Net zero by 2050: climate target requires annual investments of CHF 12.9 bn

Swiss financial centre can actively support the transition through bank loans and capital market instruments

- A joint study carried out by the Swiss Bankers Association (SBA) and Boston Consulting Group (BCG) highlights for the first time the level of investment required for the Swiss economy to become climate neutral by 2050.
- The total investments needed up to 2050 amount to CHF 387.2 bn, equivalent to an average investment requirement of CHF 12.9 bn per year.
- The Swiss financial centre can cover the lion's share (around 91 percent) of the investment requirement through bank loans and the capital market, but the remaining investment demand is beyond its scope. This will need to come from other sources, such as private-public partnerships.
- It is essential for both companies and private individuals to continuously invest in sustainable measures such as modernising buildings, switching to more energy-efficient production methods or upgrading vehicle fleets. Banks can actively support this transition by offering suitable products and services.

If Switzerland is to achieve its net zero target by 2050, the Swiss economy must adopt more sustainable practices. The Swiss Bankers Association (SBA) is convinced that the Swiss financial centre can make an important contribution towards this transition. Having focused on investment business in 2020 with the publication of a "Guideline for the integration of ESG considerations into the advisory process for private clients", in 2021 the SBA is concentrating on banks' financing activities. The key question here is how banks can effectively support the transition of the Swiss economy through financing.

Climate-neutral Switzerland: average annual investment requirement CHF 12.9 bn

The joint study published by SBA and BCG concludes that Switzerland's transition to a low-emission economy will require total investments of CHF 387.2 bn over the next 30 years, equivalent to an average investment of CHF 12.9 bn every year. The investment needed to achieve the climate goals equates to around two percent of Switzerland's gross domestic product (GDP). This will allow measures to be implemented to reduce the greenhouse gas emissions of Switzerland's ten highest-emitting business sectors in order to meet the net zero target by 2050. The bulk of this investment is needed in the sectors of **Light Road Traffic**, **Buildings** and **Heavy Road Traffic**. The facts and figures provided in the latest study make an important contribution towards addressing the challenges in a constructive and proportionate manner.

Most transition funding can come from bank loans and the capital market

A large portion of the investment needed for the transition can be financed by banks' traditional offering. In addition to bank loans and mortgages totalling CHF 10.7 bn (83 percent of the annual investment requirement), another CHF 1.0 bn (8 percent) could be financed through the Swiss capital market. Based on current volume, the bank loans needed to finance the transition would equate to around 10.8 percent of the mortgages and business loans issued every year by Swiss banks. The funding required through the capital market – around CHF 1.0 bn – would account for 1.6 percent of annual bond issuance on the Swiss stock market.

The remaining investments required concern public goods, such as the expansion of public transport, which is traditionally financed by the state (CHF 0.9 bn). The remaining CHF 0.3 bn presents certain challenges because the technologies required are not yet mature enough. Approaches such as blended finance or public-private partnerships may be able to offer solutions that plug the gap.

Vital interplay between the state, economy and financial centre

For the transition – and its financing – to succeed, there has to be optimal interplay between the Swiss state, economy and financial centre.

Government must create the right framework conditions

The state is called upon to create optimal framework conditions for the transition. Regulatory or tax hurdles, along with restrictions on financing activity, must be avoided. Only a strong financial centre will be in a position to play a key role in financing Switzerland's transition to a low-carbon economy. In addition, the regulator can take a "green supporting" approach by creating regulatory incentives for climate-friendly financing. Furthermore, suitable disclosure of climate-related information about the companies and projects being financed is an important prerequisite for financing.

Banks will provide suitable advice and finance

Many institutions have already signed up to global initiatives such as the Principles for Responsible Banking (PRB), and already disclose climate compatibility metrics (e.g. TCFD, FOEN climate goal alignment tests) or have created specific offerings for the financing of climate-oriented investments. The support of the whole sector – from regional banks through to cantonal and the large Swiss banks – together with their entire offering of products and services (including mortgages, SME loans, vehicle leasing and capital market transactions) will be necessary to ensure optimal coverage of individual funding requirements. Numerous real-life examples demonstrate that companies and banks are capable of realising sustainable projects successfully.

The economy as investor

Implementing the various CO_2 reduction measures will require significant efforts across all sectors of the economy. It is critical that companies from every sector consistently adopt sustainable practices and invest accordingly. The numerous projects in different sectors show that great strides are being made towards carbon-neutral production. At the same time, the state is called upon to create suitable framework conditions and incentives to encourage both companies and citizens to invest in green initiatives. Banks can actively support this transition by offering suitable products and services, as well as advice on financing options.

About the Swiss Bankers Association (SBA)

As the umbrella association and voice of Swiss banks, the Swiss Bankers Association (SBA) champions optimal framework conditions for the Swiss financial centre both at home and abroad. It represents the banking sector's interests vis-à-vis the business world, politicians, the authorities and regulators. It is committed to open markets, entrepreneurial freedom and fair competition. As a centre of expertise, it disseminates banking knowledge and addresses topics of the future. Founded in 1912 in Basel, the SBA's membership today includes over 250 institutions and around 11,500 people.

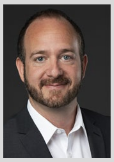
About Boston Consulting Group

Boston Consulting Group partners with leaders in business and society to tackle their most important challenges and maximise their opportunities. BCG has been a pioneer in business strategy since it was founded in 1963. Today, it works closely with clients to embrace a transformational approach by supporting them with complex changes, creating growth opportunities, building competitive advantage, improving staff and customer satisfaction as well as long-term business performance. BCG has offices in over 90 cities and more than 50 countries. Its global workforce of 22,000 employees generated revenues of USD 8.6 billion in 2020.

Contact details

Monika Dunant
Head of Public & Media Relations

media@sba.ch
+41 58 330 63 95



Matthias Haymoz
Communications Manager

haymoz.matthias@bcg.com
+41 79 373 87 00

www.swissbanking.ch · twitter.com/SwissBankingSBA
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