Swiss Banking

The role of banks in the climate transition

May 2025

Swiss Bankers Association (SBA) position paper

Swiss Banking

The role of banks in the climate transition

SBA POSITION PAPER

Main points in brief

- Thanks to its economic function, the financial sector can make a contribution to the transformation of the real economy and play a key role in the transition to net zero.
- Banks help to achieve reductions in greenhouse gas emissions and promote economic resilience by providing capital for renewable energy projects, supporting innovative companies and integrating environmental, social and governance (ESG) criteria into lending and investment decisions.
- Through their risk management, they strengthen their own resilience against climate-related challenges. As actors in an ecosystem, they support collaboration and dialogue between companies, the general public and politicians.
- Switzerland aims to become a leading hub for sustainable finance. In addition to government measures, there are measures developed by the federal authorities and the sector working together, and others that are voluntary. A regime of binding self-regulation for the sector complements and fleshes out central elements of government regulation.
- Market-driven measures and principles-based regulation take account of fast-moving developments in sustainable finance. The banking sector supports measures including the internalisation of negative impacts such as climate change, for example through an incentive tax on fossil fuels, transparency requirements and credible transition plans.
- It does not consider bans on financing legal activities or special taxation of financing for activities that are legal but not sustainable (also known as a “brown penalty”) to be expedient. This would force banks into an unreasonable supervisory role, while levying the taxes would be an extremely bureaucratic process. The sector also believes that climate risks must remain part of the tried-and-tested risk approach in prudential regulation.
- The transition process takes time and a steady hand. Once regulations have come into force, they should be given time to take effect. Political activism undermines the planning security that is so urgently needed for investments and is therefore counterproductive. Market-based instruments may appear sluggish in the short term, but their breadth and viability more than make up for this.

As companies, banks make a direct contribution to the climate transition by adapting their own operations. This includes efforts in environmental management covering, for example, the energy efficiency of everything from offices and IT infrastructure to cash machines. However, this effect is of secondary importance, given that the entire financial centre accounts for just 1% of Switzerland's total direct greenhouse gas emissions.

Mediator in capital allocation

The main lever lies in banks' economic function as a link between investors and the real economy: money flows from capital providers to capital recipients through financial intermediaries, and information is processed on both sides.
Capital flows are geared to the needs of the companies seeking capital and the investors providing that capital and constrained by the applicable regulatory frameworks. This mediating role is therefore of particular relevance and an important element in the transformation of the real economy towards a sustainable economy and society.

Given its three core functions of investment, financing and capital market activities, the banking sector has three ways to participate in the climate transition.

- **Financing:** Banks play an important part in financing sustainable projects, including in the fields of renewable energy, energy efficiency, environment-friendly infrastructure and other sustainable initiatives. When providing funding, banks can advise and support companies and projects with a positive environmental impact. They can also promote sustainable practices through their lending policies.
- **Investment:** By developing financial products, banks also contribute indirectly to promoting sustainable investments, integrating sustainability aspects and avoiding negative impacts on the environment or society. These can include green bonds, sustainability-related funds and other products that encourage investors to invest in sustainable projects or companies. Various motivations for investment can play a role. Proactive dialogue with clients on their motives as well as the opportunities and risks these financial products entail is essential. Meanwhile, active dialogue, together with exercising voting rights (stewardship), can influence the transition efforts of the companies targeted for investment.
- **Capital market:** Banks advise companies and clients on developing sustainable business models and practices. This includes, for example, implementing energy efficiency measures, switching to renewable energy sources and integrating ESG criteria into corporate strategy.

Providing information

Above and beyond capital allocation, banks contribute by, in particular, **creating transparency and providing information.** This begins with their own operations, on which they provide transparent, science-based reports, and extends to disclosing their own environmental impact and the efforts they are making to promote sustainability.

Measures to address environmental and climate risks

Via their risk expertise, banks also play an important role in the **management of environmental and climate risks**. A distinction is drawn between physical risks and transition risks. **Physical risks** include damage and costs arising from climate events such as storms, flooding and heatwaves which can jeopardise or harm a company's economic activities or value. **Transition risks** are those arising for companies from the transition to a low-emission economy and society and through regulation, changing consumer behaviour or liability and litigation risks. By integrating climate risks into their valuation and risk management processes, banks can strengthen their own resilience against climate-related challenges, while at the same time sending important signals to capital recipients by, for example, requiring risk premiums.

Social and political engagement

Aside from market mechanisms, the banking industry also engages in **social and political dialogue**. Together with many other stakeholders in the (real) economy, politics, non-governmental organisations and civil society, they act as opinion leaders.

Frameworks are key to success

If banks are to perform their particular role in the climate transition, however, a number of things are required. One is the **provision of various data**, in particular regarding companies, to identify the risks associated with climate change, in order to translate them correctly into price signals in the form of risk premiums. Linked to this is the **creation of clear frameworks with lasting reliability**, in particular for the real economy, to better support planning for long-term investments. The introduction of an **incentive tax on greenhouse gas emissions** is, of all the available options, the one that appears most market-congruent, effective and efficient, especially since the potential financial burden it imposes on the economy as a whole can be largely cancelled out by means of a pro capita redistribution.

Measures by the banking sector

Switzerland aims to become a leading hub for sustainable finance. To do so, it needs to put frameworks in place that allow for continual improvements in the Swiss financial centre's competitiveness while at the same time effectively driving sustainability. The banking industry is already implementing a variety of measures in this respect.

State measures

Switzerland has ratified a number of international sustainability frameworks, including the **Sustainable Development Goals (SDGs)** and the **Paris Agreement on climate change**. To achieve net-zero greenhouse gas emissions by 2050, it has adopted the **Federal Act on Climate Protection Goals, Innovation and Strengthening Energy Security (Climate and Innovation Act, CIA)**, complemented by the **CO_2 Act**.

When it comes to creating transparency in relation to climate issues, the recommendations of the **Task Force on Climate-related Financial Disclosures (TCFD)**, the associated **FINMA Circular "Disclosure – banks"** and the **Ordinance on Climate Disclosures** are especially relevant for Swiss banks. Banks operating abroad are subject to further regulation, notably that in the EU.

Cooperation between the federal government and the banking sector

Further climate-related measures drawn up in partnership by the federal government and the banking sector are also relevant. Regular **climate compatibility tests** are carried out under the aegis of the Federal Office for the Environment (FOEN) and the State Secretariat for International Finance (SIF). The federal government has also worked with the financial industry and non-governmental organisations to develop the **Swiss Climate Scores**, which provide investors with information on the extent to which an investment is compatible with internationally agreed climate goals.

Voluntary measures

Many banks have already set themselves voluntary **net-zero targets** and some signed up to international initiatives such as the **Net-Zero Banking Alliance** and the **Net Zero Asset Managers initiative.** Through **active dialogue** with companies, backed up by systematic, engagement-oriented exercise of voting rights, banks can encourage those companies to improve their climate impact and reduce climate risks.

Self-regulation

A regime of binding self-regulation for the banking sector complements and fleshes out central elements of government regulation. The Swiss Bankers Association (SBA) introduced two sets of self-regulations on sustainable finance in 2022, one on **clients' sustainability preferences** in investment advice and portfolio management, and the other on incorporating **energy efficiency** into mortgage advice. In 2024, the SBA revised its guidelines on investment advice and portfolio management to include the prevention of greenwashing.

Climate policy measures that the sector views positively

From an economic perspective, **internalisation of the negative impact of climate change** and the **use of pricing mechanisms to combat climate change** are of crucial importance. The banks are in favour of pricing external factors into real economic activities in a targeted way, for instance in the form of an incentive tax on fossil fuels.

Market-driven measures, such as regulation in the form of **industry standards** and **self-regulation**, are preferable to government regulation, for reasons of efficiency. Government regulation, meanwhile, must in all cases comply with the principles of **proportionality** and **principles-based regulation** in order to keep up with the fast pace of development in sustainable finance.

Transparency requirements aligned with widely accepted international standards enable informed risk management and sound decision-making. They are also an opportunity for financial institutions to publicly document especially climate-friendly behaviour. Crucially, the transparency requirements must be commensurate with a bank's size and complexity, and the risk profile of its business model. The banks also believe that credible **transition plans**, especially those of companies in the real economy, should be supported as a strategic tool for an orderly transition to a carbon-neutral economy.

Climate policy measures that the sector views critically

Wherever possible, measures should be structured to avoid **deviating from the legal reference frameworks of other jurisdictions**, especially the EU. Specifically, this means that for both banks operating internationally and companies in the real economy, there should be no conflicts or duplications with regulations from other relevant jurisdictions.

A **ban on financing activities that are not sustainable but perfectly legal** would be politically inconsistent, since it would force banks into an unreasonable supervisory role. Financial institutions only have limited control over the sustainability impact of the things they finance and would be confronted with considerable risks and a heavy workload.

For the transition to net zero, it is also necessary to finance companies that are currently "brown" but have credible plans for becoming "green" in future. For this reason, the sector does not believe that **taxation of financing for activities that are legal but not sustainable (a "brown penalty")** is expedient. The introduction of an incentive tax alone would be entirely sufficient, and would avoid a major bureaucratic workload.

The stability of the financial centre is key. Climate risks must therefore continue to be included in the tried-and-tested risk approach of prudential regulation. The current capital adequacy and liquidity requirements, including for non-systemically important banks, should not be destabilised. For this reason, **tightening or relaxing capital adequacy and liquidity requirements** on the basis of climate considerations should be firmly rejected.

Conclusion

In summary, the path towards net zero followed by Switzerland to date is fundamentally the right one. The measures that the banks have adopted and, in some cases, are already implementing are comprehensive and in tune with the Federal Council's sustainable finance goals. They need to be consistently implemented and refined going forward, to ensure that Switzerland can continue to position itself as a leading hub for sustainable finance. However, the developments that have already been initiated should be given time to take effect. In particular, market-based instruments may appear sluggish in the short term, but this is more than offset by the breadth and viability of the impact.

Swiss Banking

Author(s)

Erol Bilecen, Head of Sustainable Finance
erol.bilecen@sba.ch, +41 58 330 62 48

Media contacts

media@sba.ch, +41 58 330 63 95

www.swissbanking.ch · linkedin.com/company/swissbanking