

Sustainable Investing in Retail Banking: Shrinking the Gap between Customers' Demand and Banks' Offerings

Executive Summary

In the last few years sustainability gained a lot of attention in today's society. This development was mirrored in the financial sector which was confirmed by Allianz Global Investors. As it leads the financial flows, the financial sector plays an important role in the transition towards a sustainable economy. But the speed of this transition depends on a broad range of factors.

What was found to be of great interest was the demand for and the offering of sustainable products in the retail banking sector. The retail banking sector is a mass business where the products must be standardized to a certain degree due to financial restrictions. Further, the younger generations – such as the millennials or generation Z – seem to be more sustainable and to have different consumption behaviours. Thus, they may demand a different kind of products from retail banks. Based on this information, an analysis of the Swiss retail banking sector's offerings of sustainable products and the demand for such products from younger generations shall be made. The intention of this analysis is to show whether there may exist a gap between the offerings of and the demand for sustainable investment products in the Swiss retail banking sector. In case such a gap exists, the reasons shall be looked closer at, and possible solutions shall be proposed.

In a first step, a fundamental problem of sustainability was addressed: the non-existence of a uniform definition. It was necessary to look at the broad range of different definitions. Another important regard is regulation. Regulation plays an important role in the financial sector as regulatory frameworks and standards lead to common rules. But as sustainable finance is a rather new development, there are no such regulatory frameworks or standards on an international level yet. Further, a lot of research is being made in the field of sustainability and sustainable finance which leads to a wide range of literature. The theoretical part together with a review of a selected amount of literature shall provide the readers of this thesis with an overall view and a basic understanding regarding sustainable finance.

In a next step, an analysis of the current offering of sustainable products in the Swiss retail banking sector was made. The offerings of 15 Swiss retail banks were looked closer at and it was found that all of them offer sustainable products. When looking at investing, all banks offer sustainable products, mostly in the form of funds. For mortgages, those who offer sustainable products mostly give a discount on the interest rate. Looking at savings and pension provision, all banks offer sustainable products. The pension provision as well as the savings products mostly consist of sustainable funds. Concluding, the Swiss retail banks indeed offer sustainable products, but they are mostly based on funds and do not allow to have a direct impact.

The main part of this thesis consists of a survey among students and interviews with Swiss retail banks. The survey was made among students from the University of Zurich as it was a

well accessible group of participants, and they represent the younger generations. The survey was split into four parts: personal information, financial literacy, sustainability, and sustainable investing. It was sent to 10'000 students from the University of Zurich per mail and they were given five weeks to participate. For the interviews ten Swiss retail banks were asked whether they would be willing to give an interview about sustainable investing. Eight out of the ten banks agreed on giving an interview after getting initial information about the purpose of this thesis. The questions asked to the banks were based on the information one could find on their websites but were similar for all banks. Due to the anonymity of the banks, the exact questions and interview content is not being disclosed.

After the analysis of the survey and the interviews, it was found that a gap between the demand of the younger generations and the current offering of Swiss retail banks of sustainable products exists. The survey results show that most of the participants are interested in sustainability. For women the share of participants who already behave sustainable is approximately 14% larger than for men. Around half of the participants are interested in investing sustainable. The survey shows that for the younger generations it seems to be important to have an impact with their investments. Especially aspects like the carbon footprint, human rights, and the deforestation of the rainforest appear to be of importance. But regarding the analysis of the offerings and the interviews with Swiss retail banks, such products do not currently exist for retail banking customers. This is not due to a lack of willingness of the banks, but to several challenges they are facing when it comes to the implementation of such products. In the retail banking sector one of the challenges is the limited amount of capital of the clients and thus, their reduced capacity of bearing risk. At this point, one must keep in mind that especially the younger generations have a stronger tendency towards sustainability and sustainable investing but mostly could not save too much money yet. Further, it is difficult for banks to report meaningful key figures to their customer. They require more and high-quality data in order to make proper reporting. This highlights the importance of the need for consistent, international regulatory frameworks and standards.

The analysis of the Swiss retail banking sector regarding the offerings of the banks and the demand of the younger generations led to interesting insights. Nonetheless, there are several limitations to it. First there were basic limitations such as constraint time, constraint financial capabilities, etc. Furthermore, the group of participants of the survey may led to a bias in the results as they only represent the younger population with a higher level of education. The group of participants, the questionnaires, and the number of banks interviewed could be extended to get more significant data.

To summarize, it was found that a gap exists but that it is due to the several challenges which arise with sustainable finance. Integrating sustainability into the financial sector is a process which only just began and needs time to be fully implemented. As times goes by, the challenges mentioned above can be overcome and in conclusion, a wider range of products can be offered. But at the moment retail banks may not be able to win young people as

customers due to the lack of certain products. As there are currently too many challenges for the implementation of sustainable impact products, it may help to communicate with the potentially new as well as the already existing clients. Creating understanding for all the difficulties that come along with the transition to sustainable finance seems to be key. With further research, the willingness of the banks and the customers to take their part, and regulation on an international level, the gap in the demand for and the offerings of sustainable investment products will hopefully be closed.