Banks do too little to communicate their sustainable investment products

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More private banks are offering sustainable investment options to wealthy clients. How do these products differ from one another? And do the banks' advisory services meet the expectations of investors? A study by the University of Zurich into the products and services of the 15 leading European private banks shows that most still have room for improvement.

Less than 1 percent of the global population controls more than 50 percent of wealth. All over the world, these wealthy investors have an increasing interest in investing their wealth sustainably, in accordance with socially responsible, environmentally friendly and ethical principles. This flow of capital could be a decisive factor in ensuring sustainable development. Many banks are aware of this growing segment of clients and have developed corresponding investment strategies. But how helpful are the sustainable products and services of the individual banks really? And how well are clients informed about these investment opportunities?

Analysis of mission statements, portfolios and services

Two researchers of the Center for Sustainable Finance and Private Wealth of the University of Zurich have now addressed these questions. In their report, Taeun Kwon and Falko Paetzold analyzed the sustainable offerings aimed at wealthy clients of 15 European banks—from French BNP Paribas and Dutch Triodos Bank to UBS, Credit Suisse, Zürcher Kantonalbank and Edmond de Rothschild private bank. Their analysis focused on the banks' mission statements, their range of offers as well as associated services.

"Good sustainable investing offerings exist in the market. However, the difference between banks is large and the number of sustainable products offered can be as low as five, or as high as 108," explains Taeun Kwon, first author of the study and head of the private banking program. "Some banks are in the process of integrating sustainability into all of their investment options, while others offer complementary sustainable products. However, those offers that are really interesting to investors and that are strategically thought through and have a significant positive effect are still few and far between." In the study, Globalance Bank from Switzerland and Triodos Bank from the Netherlands, both of which specialize in sustainability, achieved the best marks. Other banks in the study, including UBS and Credit Suisse, roughly correspond to the industry average, with individual strengths and weaknesses.

Limited influence

However, the banks' products fall short where there might be the largest interest and impact for investors. "Many banks buy shares and funds for their clients and hope for the price to go up and integrate sustainability aspects into the relevant products. But very few actively engage with their investees and achieve meaningful impact," says Falko Paetzold, founder and managing director of the Center for Sustainable Finance and Private Wealth. According to the study, only half of the banks offer voting services on shares, which under certain circumstances would enable investors to shape the business policy of the investees with regard to sustainability. While this is possible for private investors explicitly looking to actively engage with companies on issues of sustainability, this option is still largely unavailable for most products, according to the authors of the study.

Relationship managers often lack training

Private investors in particular are often interested in sustainability topics, but have to rely on relationship managers when it comes to investing their wealth. And here the study has identified a key issue: "We often hear that wealthy clients leave their bank because their relationship managers say the bank does not have a sustainable investing offering, although we know that the bank does have such products," says Taeun Kwon.

According to the report, only one in two banks include sustainable investing as part of their mandatory training for relationship managers. And even where sustainable investing is covered in the training, it is limited to two to four hours. "Relationship managers need more training to feel comfortable about leading a professional conversation on the topic," concludes Kwon. Relationship managers also need more organizational support from their bank. When it comes to services, Lombard Odier and Pictet in particular achieved good results, along with the two specialized banks. However, all of the banks participating in the study are aware of the fact that they need to better train their relationship managers about their sustainable product offerings.

The report "Sustainable Investing Capabilities of Private Banks" of the Center for Sustainable Finance and Private Wealth (CSP) of the University of Zurich offers guidance for both private investors and private banks interested in sustainable investing. It includes leading private banks such as UBS and Credit Suisse and provides a representative overview of the sustainable investing offering in private banking in Europe. The individual bank profiles are of particular interest to private investors who want to review their own banks or other potential banks. For private banks, the report offers an overview of their own capabilities and those of other players, and case studies of good practices.

Provided by University of Zurich