RESPONSIBLE WEALTH

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BUILDING SUSTAINABLE BUSINESS MODELS IN PRIVATE BANKS: A PATHWAY TO A BETTER FUTURE

WWF-SINGAPORE SUSTAINABLE PRIVATE BANKING AND WEALTH MANAGEMENT (SPRING) PILOT STUDY

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The World Wide Fund for Nature (WWF) is one of the world's largest and most respected independent conservation organisations, with over 5 million supporters and a global network active in more than 100 countries. WWF's mission is to stop the degradation of the planet's natural environment and to build a future in which people live in harmony with nature. WWF has worked with the finance sector for more than a decade via innovative collaborations that seek to integrate ESG risks and opportunities into mainstream finance so as to redirect financial flows to support the global sustainable development agenda. Our approach to sustainable finance leverages WWF's conservation expertise as well as our partnerships with companies on key issues such as water, energy, climate, and food to drive sustainability. Positioned at the cutting edge of sustainable finance internationally, WWF contributes directly to leading initiatives, including the European Commission's Platform on Sustainable Finance and the development of an international green bond standard. WWF also works directly with some of the largest asset owners in the world on decarbonising investment portfolios. This has allowed us to strengthen lending and investment criteria for key industry sectors, provide insights and data on environmental and social risks, fulfil critical research gaps, help unlock innovations in sustainable finance products, and convene key stakeholders to progress the sustainable finance agenda.

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CHAPTER 1

EXECUTIVE SUMMARY

THE LATEST INTERGOVERNMENTAL PANEL ON CLIMATE CHANGE (IPCC) 6th Assessment Report (AR6) revealed that despite advancements in climate mitigation legislation and policy, "it is likely that warming will exceed 1.5 °C during the 21st century." However, with concerted action, the 1.5°C increase can still be avoided. There is a need for rapid and far-reaching transitions in energy, land, urban and infrastructure systems, and industrial processes. In addition, we need to prioritise energy conservation and efficiency as well as promote greater integration throughout the energy system. The AR6 report provides evidence that the available pathways and solutions can help people develop resilience and prevent the devastating effects of climate change. We need to act quickly, as time is running out to tackle the climate crisis.

With the recent Global Biodiversity Framework (GBF) agreed in Montreal, there is a clarion call on the need to scale up finance, progressively aligning all financial flows with the goals and targets of the GBF. Financial institutions must develop the capacity to identify material nature-related risks, create nature-related transition plans, and disclose their impact and reliance on biodiversity.te-induced natural disasters, water shortages, and lower agricultural yields.

Further, the ongoing energy crisis and geopolitical uncertainties are leading to increased complexity in many markets. In these unprecedented times, private banks are well-positioned to engage proactively with clients and partners, guiding them through the market's complexities with high-quality advice and insight.

According to Capgemini's World Wealth Report 2020, the wealth of the world's HNWI reached $74 trillion in 2019. Furthermore, private banks need to prepare themselves for an upcoming disruption, the Great Wealth Transfer. It is forecast that by the end of 2045, $84 trillion in wealth will transition from one generation to the next. This change will have a huge impact on the wealth management industry. Importantly, 27% of overall HNWIs express interest in sustainable investment products. The trend is stronger among HNWI under 40, with nearly half (49%) being interested in sustainable investments. The younger generation of beneficiaries increasingly prioritises sustainability and social responsibility, leading to a growing demand for sustainable investment options among private banking clients.

With the growth in Asia's wealth management revenue expected to reach $90 billion by 2025, private banking in Asia is expected to display significant growth in the coming years as the number of ultra-high net worth individuals (UHNWIs) in the region increases. It is therefore more relevant than ever to stress the importance of sustainable practices in private banking and wealth management.

Further, this is in line with the journey of the financial sector. Principles for Responsible Investment (PRI) has grown to include a network of 5090 signatories, representing over $120 trillion in assets under management. Regulatory drivers, such as the EU Action Plan and the Sustainable Finance Disclosure Regulations (SFDR), have encouraged the financial sector to develop and improve sustainable investing solutions. Guidelines provided by organisations like the Task Force on Climate-Related Financial Disclosures (TCFD), the Task Force on Nature-Related Financial (TNFD) Disclosures, and the Sustainability Accounting Standards Board (SASB) offer clarity on climate metrics and material factors, enabling private banks to integrate sustainability more effectively. The Principles for Responsible Banking (PRB) also provide guidance to banks in aligning their business strategies with society's goals as expressed in the United Nations Sustainable Development Goals (SDGs) and the Paris Climate Agreement.

This report introduces a framework for a comprehensive approach to sustainable investing for private banks and inspires action towards promoting transparency, accountability, and alignment with planetary boundaries to foster resilience and bring about concrete changes in the economy.

Following the development of the Sustainable Private Banking and Wealth Management (SPRING) framework, WWF-Singapore conducted a pilot study with a small group of private banks based on the framework questions to assess environmental, social, and governance (ESG) integration efforts.

IN THIS REPORT, WE OUTLINE THE FOLLOWING OBSERVATIONS FROM WWF-SINGAPORE'S PILOT STUDY:

MAKE SUSTAINABILITY A STRATEGIC PRIORITY: We are encouraged to see that private banks are making commitments to integrate sustainability, albeit at the group level. Private banks need to integrate sustainability into their activities, including setting science-based targets and increasing their focus on climate and nature-related risks.

NEED FOR STRONGER RISK MANAGEMENT: There are some green shoots with private banks undertaking ESG risk assessments and scenario analysis, using multiple data sources for due diligence at the group level, but it needs to be an integral part of the private banks' processes.

DEVELOPING BETTER GOVERNANCE STRUCTURES CAN BE HELPFUL: Most private banks primarily rely on group-level oversight for their ESG strategies and execution. Appointing dedicated sustainability officers for private banks and integrating sustainability into board audit or nomination procedures, could help private banks improve their sustainability governance.

THE IMPORTANCE OF ESG CONSIDERATIONS IN CLIENT DUE DILIGENCE AND THE CUSTOMER JOURNEY: Using ESG approaches can aid private banks' understanding of a client's risk profile and investment preferences. Nonetheless, private banks are currently lacking in both client profiling and reviewing for ESG preferences. This leaves banks vulnerable to increased reputational and regulatory risks, which may result in missed sustainable investment opportunities.

OPPORTUNITIES TO DEVELOP ENGAGEMENT AND VOTING STRATEGIES TO MEET CLIENT PREFERENCES. Private banks can play a significant role in promoting sustainability by supporting their clients with ESG-focused strategies, exercising delegated voting and engagement rights, and advocating for better business practices among investee companies.

CHAPTER 2

INTRODUCTION TO THE SUSTAINABLE PRIVATE BANKING AND WEALTH MANAGEMENT (SPRING) FRAMEWORK

FOR THE PAST DECADE, WWF-SINGAPORE HAS partnered with banks, investors, regulators, and stock exchanges in Asia to integrate ESG into mainstream finance and build more resilient and sustainable financial systems. We have developed several sustainability frameworks that assess the ESG integration practices, policies, and products of banks (SUSBA), investors (RESPOND), and financial regulators and central banks (SUSREG).

Private banks (PBs) act as advisors to their clients, and unlike commercial banks or asset managers, they may have a customised mandate or limited discretion in the management of wealth. Due to their distinct business models, PBs have different strategies they follow to engage, inform, and encourage clients to invest sustainably.

The Sustainable Private Banking and Wealth Management (SPRING) framework builds on the existing frameworks by integrating WWF's science-based insights and experience, ensuring relevance to private bank operations. Keeping this aspect in mind, WWF-Singapore developed an assessment framework tailored to the needs of private banks in addition to the assessment frameworks for commercial banks and asset managers. The assessment hopes to enable and encourage private banks to implement effective strategies to advise clients with the right incentives and information to invest sustainably. To enable this, PBs would require distinct governance structures, policies, incentive structures, and human capital from those of the group.

Furthermore, scaling up private sector investment will be crucial for achieving global biodiversity and climate goals, in line with the Paris Agreement and the Global Biodiversity Framework. Private banks must strive to make a tangible difference on the ground in support of the SDGs through their portfolios. Therefore, the framework also explores private banks' provision of thematic or solution-focused investment products to address specific ESG issues, as well as their tracking of the overall contribution of their portfolios towards generating positive ESG impacts.

THE SIX-PILLAR FRAMEWORK

The SPRING framework is built on six fundamental pillars that emphasise the importance of sustainability in achieving long-term portfolio growth. These pillars underline the role of private banks in financing sustainable development, connecting to the real economy, and protecting natural capital. Along with the framework's 48 sub-indicators, it measures the robustness of ESG integration in the private banking sector and encompasses the private banks' policies, practices, client-related activities, processes, and policies and commitments.

It evaluates various areas of the private banks' business, including investments (discretionary portfolio management (DPM), investment advisory, and execution), wealth planning, and philanthropy. No weights have been applied to the indicators, and no scores have been assigned to the private banks.

The SPRING framework and the full list of sub-indicators can be found in Appendix 1.

PURPOSE	*Private banks need to recognize that sustainability is a necessary condition for resilient long-term portfolio growth and that they have a crucial role to play in financing sustainable development.*
POLICIES	*Private banks need to develop and publicly disclose policies that outline their approach to and scope of sustainable investing.*
PROCESSES	*To guide the integration of ESG into internal processes and due diligence.*
PEOPLE	*It is necessary to have well-trained individuals with clearly defined roles and responsibilities, along with robust governance structures that ensure accountability at the board and senior management levels.*
PRODUCTS	*Sustainable investing is not solely focused on managing risks; it also entails seizing opportunities by offering the appropriate products and services.*
PORTFOLIO	*To ensure that the private bank's business model is resilient and effectively incorporates sustainability, it is crucial to have a strategic overview and set targets at the portfolio level, enabling the management of risks, impacts, and opportunities.*

CHAPTER 3

ABOUT THE PILOT STUDY

SEVEN PRIVATE BANKS WITH A PRESENCE IN Singapore volunteered to participate in the pilot study during the period of October 2022–February 2023. The participating private banks have headquarters in the US (1), Europe (2), and Asia (4).

We have collected responses from the participating private banks through an online questionnaire, which comprises questions from the SPRING framework sub-indicators. Thereafter, the respondents were engaged by WWF-Singapore's Sustainable Finance team through calls and email exchanges to discuss, review, and understand the private banks' responses.

The responses are collated and analysed by WWF-Singapore's Sustainable Finance teams, and the summary results are presented anonymously in the next chapter.

The objectives of the pilot are:

1. To assess the ESG integration maturity levels across the above-mentioned six pillars within the private banks
2. Foster deeper working relationships with private banks.
3. To identify and support private banks in areas such as capacity building, training, and enhancing ESG integration

Through our study, we recognise that DPM may currently represent only a small portion of the private bank's business. However, for this first version of the SPRING framework, we have considered a private bank's own DPM products and third-party asset managers' products. WWF-Singapore assesses global asset managers under our RESPOND framework.

CHAPTER 4

FINDINGS

ALL SEVEN PRIVATE BANKS HAVE MADE PUBLIC COMMITMENTS IN LINE WITH THE OBJECTIVES OF THE PARIS AGREEMENT TO LIMIT GLOBAL WARMING TO 1.5°C AT THE GROUP LEVEL.

5 OUT OF THE 7 PRIVATE BANKS REFERENCE OR MAP THEIR STRATEGY AND ACTIVITIES TO THE UNITED NATIONS SUSTAINABLE DEVELOPMENT GOALS (SDGS).

FINDING 1: INTEGRATING SUSTAINABILITY INTO PRIVATE BANKS' OPERATIONS AND POLICIES IS A NECESSITY

Pillar / Indicator: Purpose / Relevance Of Sustainability In Organization's Strategy and Vision
1.1 Explicit integration of sustainability into private banking activities 1.2 Referencing/mapping of strategy and activities to sustainable development goals (SDGs)
Pillar/Indicator: Purpose/Industry Collaboration and Participation
1.3 Participation in sustainability-related collaborative initiatives
Pillar/Indicator: Policies/Responsible Investment Policies
2.1 Sustainability policies covering private banking activities (investments, lending, wealth planning, and philanthropy) available to the public
Pillar / Indicator: Policies / Issue-Specific Policies
2.5 Issue-specific policies (palm oil, fisheries and seafood, agriculture) incorporated into investment decision-making 2.6 Expectation for investee companies to set science-based targets
Pillar/Indicator: Portfolio / Metrics and Targets
6.5 Science-based targets for decarbonisation and activities calibrated on low overshoot 1.5C scenarios and global reduction in CO2 of approximately 50% by 2030

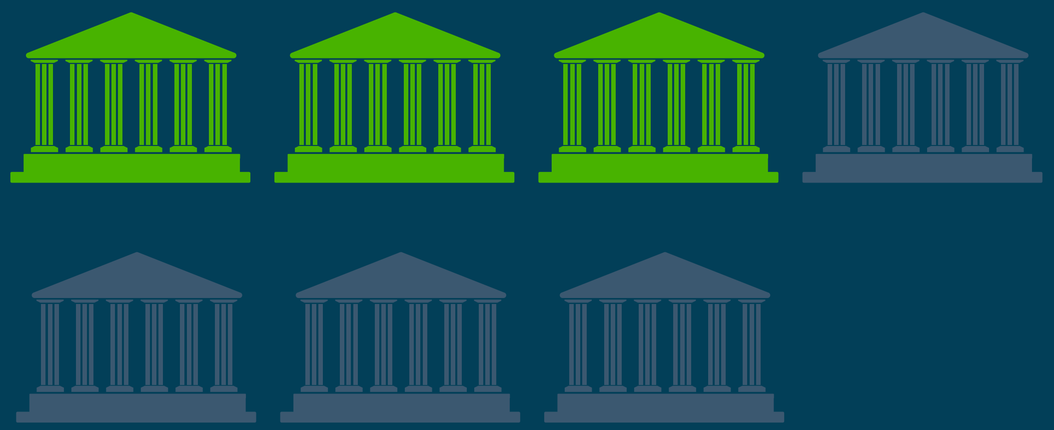
**Finding 1 is established based on the findings from these indicators.*

There is an increasing recognition that climate change poses significant risks to financial stability and long-term value creation. The World Economic Forum (WEF) 2023 Global Risk Report identifies biodiversity loss, ecosystem collapse, and human-made environmental damages as top risks. Nature-related risks can have significant financial impacts on companies and industries, which in turn can affect the portfolios of private banks and their clients. For example, extreme weather events such as droughts or hurricanes can disrupt supply chains and cause physical damage to infrastructure and assets, leading to financial losses.

In our study, 5 out of the 7 private banks integrated sustainability into their private banking activities, with commitments and objectives such as meeting a set of Sustainable Development Goals (SDGs), inclusion of ESG factors in investment decisions, and a dedicated sustainability-focused committee or body. All seven private banks have made public commitments in line with the objectives of the Paris Agreement to limit global warming to 1.5°C at the group level. 5 out of the 7 private banks reference or map their strategy and activities to the United Nations Sustainable Development Goals (SDGs).

Table 1: Ways in which some private banks are currently integrating sustainability considerations

1	2	3
Having a dedicated sustainability planning and oversight body	*Focus on expanding sustainability offerings and AUM under Sustainability, including ESG factors into investment decisions.+*	*Helping clients increase and manage sustainable investing portfolios, tracking portfolio-level carbon footprints, and improving the quality of the reporting on the sustainable investing offering*



FURTHER, MOST (4 OUT OF 7) OF THE BANKS HAVE YET TO SET THEIR SCIENCE-BASED TARGETS FOR DECARBONISATION, WHILE THREE PRIVATE BANKS HAVE DONE SO.

Table 2: Current policy maturity among surveyed banks

Exclusion Policies	Proxy Voting Policies	Issue-specific policies
Yes: 5/7 • *Fossil Fuels (Coal, O&G): 2/7* • *Others (such as palm oil and tobacco): 3/7*	*Yes: 3/7*	*Yes: 2/7*
No: 2/7	*No: 4/7*	*No: 5/7*

In general, we observe that exclusion policies formed the first step for most banks. Banks further ahead in their sustainability journey additionally had proxy voting policies and issue-focused policies, catering to specific challenges or scenarios. It is encouraging to see that, apart from climate, nature and biodiversity policies are being developed, indicating the recognition of the rising materiality of biodiversity loss.

Among the industry initiatives, all participating private banks are supporters of the Task Force on Climate-related Financial Disclosures (TCFD), with Principles for Responsible Banking (NZBA) and CDP seeing greater uptake among the private banks. Notably, the signing entity for these industry initiatives for all seven private banks is at the group level.

Table 3: Voluntary industry initiatives and frameworks banks are signatories of/aligned with

Initiative	Number of banks
Task Force on Climate-related Financial Disclosures (TCFD)	7
Principles for Responsible Banking (UN PRB)	4
Net Zero Banking Alliance	4
CDP	4
Principles for Responsible Investment (UN PRI)	3
Taskforce on Nature-related Financial Disclosures (TNFD)	3
Equator Principles	3
Global Reporting Initiative (GRI)	3
UNEP FI	3
Others (22 initiatives)	-

FINDING 2: PRIVATE BANKS NEED A COMPREHENSIVE RISK MANAGEMENT STRATEGY

Pillar / Indicator: Processes / Research, Stock Monitoring And Risk Management
3.3 ESG investment due diligence in its private banking activities
Pillar / Indicator: Portfolio / Risk Assessment
6.1 Continuous monitoring of the portfolio for E&S risk incidents (e.g., deforestation, water scarcity, or human rights violations) 6.2 Periodic review and disclosure of portfolio exposure to climate-related risks using scenario analysis 6.3 Strategy to manage and mitigate climate-related risks across portfolios

**Finding 2 is established based on the findings from these indicators.*

The recent bank failures have highlighted the importance of risk management. Trust and a strong culture of transparency drive the conduct or behaviour of its employees. As the risks private banks face become more complex, the design, assessment, and approaches to risk management and mitigation must be adapted accordingly. As such, having effective corporate governance and adopting a more holistic business and risk management mindset are critical. When the board and top management prioritises a culture of ethics and compliance, it helps people at all levels of the company break down the many existing silos and collaborate. This crisis offers the perfect opportunity for all financial institutions, including private banks, to refocus on good business and risk practices.

Graphic: Current risk management of surveyed banks

RISK MANAGEMENT

4 of 7 private banks reported that they continually check their portfolios for environmental and social risk events, such as deforestation and violations of human rights,

- ***Two*** do not currently do so, and ***one*** is setting up the monitoring procedures.
- Additionally, ***4 out of 7*** private banks indicated that they have a strategy to manage and mitigate climate-related risks across their portfolios.

FORWARD-LOOKING RISK ANALYSIS

5 out of the 7 banks are using forward-looking risk analysis methods, such as scenario analysis, to review their ESG risk profiles.

- The scope of scenario analysis varies across the banks, with ***two focused*** on discretionary portfolio management (DPM), investment advisory, and wealth planning.
- Three others are conducting analysis at the group level, excluding wealth management and/or focused on the credit book.

DATA FOR DUE DILIGENCE

- All of the banks surveyed are using at least one data type for ESG investment due diligence in their private banking activities, while ***5 out of 7*** banks use two or more data types.
- Raw data from external providers: **4**
- External ESG rating: **4**
- In-house ESG analysis/ESG scoring methodology: **3**

FINDING 3: NEED FOR BETTER ORGANISATIONAL CULTURE, AND GOVERNANCE

Pillar / Indicator: People/Governance
4.1 Clearly defined E&S strategy structure, roles, and responsibilities for individuals, teams/committees
4.3 Internal control system with three lines of defence to manage E&S issues
4.4 Sustainability as terms of reference for the board's nominating committee or director appointment
4.5 Sustainability as a term of reference for the board's audit committee
4.6 Commitment to increase diversity (e.g., gender) at the board/senior management level

** Finding 3 is established based on the findings from these indicators.*

The principle of governance is crucial for advancing the quest in meeting sustainability goals. While group-level supervision exists, private banks could benefit from having specialised structures due to their distinctive business model. From the private banks surveyed, only one employs a dedicated sustainability officer for private banking. Enhancing integration at board level appointments could aid in achieving this objective. On a positive note, most banks are showing commitments to enhance diversity within their organisations.

Graphic: Current governance maturity of surveyed banks

GOVERNANCE

All seven private banks have board-level responsibility for the implementation of the bank's ESG strategy.

- ***Only one*** bank has a dedicated sustainability officer in private banking.
- The remaining ***six*** are being led by a group chief sustainability officer.
- ***All*** private banks in the study have established the fundamental requirement of an internal control system with three lines of defence to manage environmental and social (E&S) issues.

BOARD APPOINTMENT

3 out of 7 banks include the terms of reference of the board's audit committee or the criteria used to cover a requirement to consider sustainability.

- ***1 out of 7*** banks include the terms of reference of the board's nominating committee or the criteria used in appointing new directors cover a requirement to consider sustainability.

BOARD DIVERSITY

6 out of 7 banks have the commitment to increase diversity at the board/senior management level, and/or for portfolio managers/investment teams, primarily in terms of race and gender.

FINDING 4: CLIENT ESG INTERACTION APPROACHES TO DRIVE POSITIVE REAL WORLD IMPACT

Pillar / Indicator : Policies / Responsible Investment Policies
2.1 Bank's sustainability policies, covering private banking activities (Investments, lending, wealth planning and philanthropy)
2.2a. Client onboarding policy to review the sustainability preferences of newly onboarded clients
2.2.b. Actively asking existing clients about their sustainability preferences when providing investment services and during client reviews

Pillar / Indicator : Processes / Client Monitoring & Engagement
3.8 Activities or trainings to raise clients' awareness on ESG topics
3.9 ESG factors during client onboarding and in regular client profile reviews

**Finding 4 is established based on the findings from these indicators.*

The private banking and wealth management industry is at an inflection point, with the scope of investment advice broadening. This has resulted in a shift from product-centric strategies to client-centric advisory services, as clients' demand for comprehensive advice and growing interest in sustainable investing has prompted a change in emphasis. This offers private banks an opportunity to create business models that are centred on clients and factor in the challenges of a complex world, while ensuring long term wealth creation for their clients. Yet, the majority (5) of the private banks in the study do not include ESG factors as a part of client onboarding and regular client profile review processes. In addition, five banks do not proactively inquire about the sustainability preferences of their existing clients when providing investment services or conducting client reviews.

5 OF THE PRIVATE BANKS IN THE STUDY DO NOT INCLUDE ESG FACTORS AS A PART OF CLIENT ONBOARDING AND REGULAR CLIENT PROFILE REVIEW PROCESSES.

IN ADDITION, FIVE BANKS DO NOT PROACTIVELY INQUIRE ABOUT THE SUSTAINABILITY PREFERENCES OF THEIR EXISTING CLIENTS WHEN PROVIDING INVESTMENT SERVICES OR CONDUCTING CLIENT REVIEWS.

5

The ESG framework, above all, not only provides a set of guidelines that help banks manage risks and identify opportunities related to ESG factors but also enables banks to track risks that may be brought upon by high-risk accounts, non-performing assets, or weak governance/oversight structures. For instance, in 2020, the Monetary Authority of Singapore (MAS) undertook a series of inspections to strengthen anti-laundering and countering the financing of terrorism (AML/CFT) in private banks, which have an "inherently higher exposure to AML/CFT". Verifying customers' sources of wealth and funds, instituting a sound performance management framework to foster a strong risk culture, and exercising active senior management oversight were some of the key recommendations of this study. These recommendations are an inherent part of the ESG process. ESG screening, understanding client ESG preferences, and conducting regular reviews are some of the key elements of a sound risk framework.

FINDING 5: NEED FOR LEVERAGING VOTING AND ENGAGEMENT TO MEET CLIENT SUSTAINABILITY NEEDS

Pillar/Indicator : Processes / Active Ownership
3.10 Active ownership services in wealth management
3.12 Processes or guidelines for prioritising issues and companies for engagement.
3.13 Bank mechanism for escalation if engagement fails (e.g. shareholder resolutions, divestment)
3.14 Participation in any collective engagements on ESG issues in the last reporting year

**Finding 5 is established based on the findings from these indicators.*

Historically, the stewardship role has been predominantly restricted to institutional investors, with minimal engagement from private banks. However, there is a rising interest among individual investors as well, and interventions by prominent investors have demonstrated that individuals can influence investee companies through exercising voting rights and engagement.

By understanding their clients' sustainability criteria, private banks can develop custom mandates and systematically use delegated voting and engagement rights to advocate for better business practices in investee companies and progressively promote a more sustainable and responsible financial ecosystem.

Chart: Current status of engagement and voting

CHAPTER 5

RECOMMENDATIONS

1 SUSTAINABILITY NEEDS TO BE AN INTEGRAL PART OF PRIVATE BANKS' BUSINESS MODELS AND DRIVE CLIMATE SOLUTIONS THROUGH COLLABORATIONS WITHIN INDUSTRY COALITIONS:

While private banks tend to be part of a larger banking group/entity, their business models, operations, and clients are significantly different from commercial banking or the asset management business. With a strong focus on wealth preservation for their clients, private banks tend to have a longer-term investment and financing horizon, which aligns with sustainability considerations.

Regulators are increasingly requiring financial institutions to include sustainability factors in their operations. By doing so, private banks are better placed to identify and mitigate ESG risks and drive sustainability integration within the bank. Hence, private banks should embrace sustainability as a crucial aspect of building sustainable investment and financing portfolios, which can enhance their long-term business resilience and performance, while also reducing potential negative impacts on the environment and society.

We recognise that while industry-wide frameworks are essential, regional discrepancies in regulatory structures should be accommodated.

We recommend private banks consider participating in industry initiatives, promoting best practices, and exchanging knowledge. Collaborating with relevant stakeholders such as industry peers, academic institutions, government entities, and non-governmental organisations can help advance efforts that are aligned with a 1.5°C pathway. It is also important to engage with policymakers to advocate for stricter environmental and sustainable finance regulations in the jurisdictions where private banks conduct their business.

2 A STRONGER EMPHASIS ON CLIMATE AND NATURE-RELATED RISKS IS NEEDED:

Our assessment found that only two private banks have clear policies on issues such as palm oil, fisheries, and seafood, while others have broad statements and frameworks. Private banks are still in the early stages of considering nature-related risks in their business activities. While we recognize that challenges might exist in the measurement of nature-related financial risks, it is prudent to start soon to be prepared to manage nature-related risks and opportunities and be best positioned to support and advise their clients.

Furthermore, only 2 out of 7 private banks have coal and/or oil and gas exclusion policies. More than 80% of the combustion of fossil fuels emits billions of tonnes of harmful carbon dioxide, which is the biggest driver of climate change. Regardless of whether it uses fossil fuels or renewable sources, the costs associated with the energy transformation have an impact on nature and communities that are close to energy production sites or involved in manufacturing equipment for energy production.

As such, we recommend that all private banks move swiftly to:

- **Identify and integrate climate and nature-related risks:** Private banks should identify, understand, and map their asset risk profile (as % of AUM) to identify possible risk hotspots and develop short-term, medium-term, and long-term goals that incorporate climate and nature considerations into their financial and investment decision-making processes. While data for nature is currently limited and would develop gradually , there exist a number of guidelines that can support private banks, such as TCFD, TNFD's Leap Framework, and WWF's guide to managing deforestation and conversion risks for financial institutions.
- **Adopt and execute ambitious policies that are grounded in the latest climate science for the sectors and industries most at risk from climate and nature-related risks:**

  a. Fossil Fuels: Private banks can extend group-level exclusion policies to discretionary portfolio management services and lombard facilities towards investments in fossil fuels by immediately ceasing the construction of new coal, oil, and gas extraction and infrastructure projects, except for those that are already committed.

  — Stop investments in new coal plants and phase out all coal mines, coal plants, and coal infrastructure from investments and financing by 2030, in line with IPCC (P1 and P2) and IEA (Net-Zero Emissions by 2050) pathways

  — Phase out all extraction, infrastructure, trade, and financing related to oil and gas from investments and financing by 2040.

b. ***Agriculture, Forestry and Soft Commodities:*** Engage with companies (under DPM, with client consent provided) and outline a well-defined objective, a specified timeline, and intermediate targets to monitor progress towards the objective. End investments and financing in companies consistently linked to deforestation and land conversions through their supply chains. Exercise proxy voting rights to support resolutions that prioritise the eradication of deforestation and the conversion of activities.

The involvement and education of clients, especially in terms of risk awareness, is particularly important given the specific Asian context and the distinctive character of the private banking sector for the successful implementation of such policies.

c. ***Develop "green scores" for clients' portfolios and investment options:*** To promote sustainable investments and manage financing risks, private banks (PBs) can develop a system of "green scores" for both client portfolios and investment options. A "green score" for client portfolios would assess the sustainability of their investments, taking ESG risks and opportunities into consideration. Additionally, a sustainable rating/profile of investment options could help clients better understand the impact of an investee company on the environment and the ESG risks it faces. PBs can use the scores to price services and lending, incentivizing sustainable investments. It would also help clients make more informed investment decisions, promote sustainability, and lower financing risks.

With nature-related risks slowly gaining attention across the financial industry, market-led frameworks and initiatives such as the TNFD and Equator Principles are helpful in assessing and managing environmental risks. These initiatives provide private banks with a best-practice framework for understanding and acting on nature-related risks and opportunities. They also provide an opportunity to collaborate with other financial institutions and governments in advancing best practices and insights, learn from others, and contribute to the development of industry standards and guidelines for sustainable finance.

CLIMATE AND NATURE-RELATED FINANCIAL RISKS FRAMEWORK

3 ROBUST SUSTAINABILITY GOVERNANCE IS A KEY ELEMENT FOR THE SUCCESS OF EMBEDDING SUSTAINABILITY WITHIN ORGANISATIONS:

For the successful integration of sustainability across private banks, we believe that private banks need to establish the foundation of good sustainability governance. An effective governance structure can enable better decision-making, manage sustainability risks and opportunities, and drive value creation. A resilient governance framework should ensure that the paths to change are feasible and promote the move from targets to concrete ESG outcomes.

- Board leadership in the form of sustainability committees, both at the executive and management levels, can help ensure effective oversight and cross-divisional collaboration, which is essential for delivering against sustainability plans.
- Private banks should create clear roles and responsibilities for individuals or committees responsible for executing the sustainability strategy and overseeing the management of environmental and social risks and impacts throughout the organisation.
- Implement internal controls and audits using the three lines of defence approach to ensure the effective implementation of sustainability policies. As sustainability is a transformational process, having a strong governance structure can ensure successful transformation and long-term success for private banks.

4 SUSTAINABILITY-LINKED REMUNERATION CAN SUPPORT THE DELIVERY OF OUTCOMES

Sustainability-linked key performance indicators (KPIs) have the potential to support the achievement of sustainability outcomes and progress against sustainability objectives. Linking specific components of executive compensation to ESG performance metrics can highlight a private bank's commitment to its sustainability goals and increase the focus of senior executives on their role and responsibility in delivering on these ambitions.

With increasing regulatory action, investor demands, and global awareness of sustainability, private banks need to foster a strong sustainability culture and ensure that their employees are truly invested in building sustainable organisations to drive progress towards their sustainability goals and create long-term value for all stakeholders.

5 DRIVE LEADERSHIP THROUGH ADVOCACY AND EDUCATION

According to the World Wealth Report 2022 published by Capgemini, more than half (55%) of high-net-worth individuals (HNWIs) consider environmental, social, and governance (ESG) factors as important investment objectives. The trend is particularly pertinent among individuals under 40 years of age, with 71% agreeing. ESG concerns include environmental risks, corporate governance, and the need for robust risk and compliance frameworks.

Based on the pilot study, we are heartened to see that most (6 out of 7) of the private bank respondents have begun to advocate for sustainability and educate their clients, employees, and the public on these issues, from hosting sustainability events and conferences to engaging clients and other stakeholders and raising awareness of sustainability issues.

We encourage private banks to continue to educate their clients on the importance of sustainability and provide clients with sustainable investment and financing options through favourable conditions, such as lower interest rates and reduced fees.

6 ACTIVE ENGAGEMENT CAN BE A KEY LEVER FOR CATALYSING CHANGE

As sustainability issues become more material, clients may look to take a more active stance to influence a company's governance and practices. Private banks may develop and publicly disclose a clear active engagement approach to meet these emerging client needs. These include:

- An engagement strategy with time-bound expectations and targets clearly communicated and an escalation mechanism
- Offer proxy-voting services for their managed assets, vote on ESG resolutions, and disclose their voting behaviour.

This is a business opportunity for private banks to onboard new clients who wish to leverage their power as shareholders to promote positive change and encourage investee companies to adopt sustainable practices through voting and engaging with them on ESG issues.

Lastly, participating in collective engagements and disclosing the role they play in these collaborative initiatives is an important step in fostering accountability and holding themselves and other stakeholders accountable for meeting ESG targets and commitments.

7 ENHANCE THE CLIENT ENGAGEMENT PROCESS

It was surprising to find that 5 out of the 7 banks in the study neither perform ESG due diligence during the client onboarding and client profile review processes nor proactively seek clients' ESG preferences. Incorporating ESG factors into the client engagement process is an important aspect of risk management as it can help private banks better understand and manage ESG-related risks, such as regulatory changes, reputational risks, and supply chain disruptions.

We recommend private banks include the following steps as they improve the way they interact with and advise clients:

- Create a client onboarding policy and share it with relationship managers, investment staff, and clients for transparency. The onboarding policy can include:
  - ESG client questionnaire, which seeks to understand the client's ESG preferences, values, and priorities, should include questions on topics such as climate change, social responsibility, and corporate governance. These preferences should be integrated into the client's profile and know-your-customer process.
  - Due diligence process that states the frequency of client reviews and how the process is carried out to identify and assess ESG risks and opportunities
- Offer sustainable financial products that align with the ESG profile of the clients, such as impact investments, sustainable funds, etc.
- Integrate ESG risks into decision-making when deciding whether to accept a new client (e.g., potential reputational risks).
- Include ESG preferences as part of the suitability assessment when providing investment advice and products.

CHAPTER 6

LOOKING AHEAD

Finance is a lever for change that can help deliver an equitable, net-zero, nature-positive future, and financial institutions must make concerted efforts to integrate ESG sustainability into their investment and/or financing portfolios. According to estimates, private financial institutions will be able to generate nearly $3.5 trillion in annual financing between 2022 and 2050 in a favourable environment.

There is much more to be done. Private banks have considerable potential, influence, and financial resources to augment their sustainability agendas, facilitate the transition to a net-zero future through the integration of ESG considerations into their investment and financing decisions, and mobilise capital towards sustainable investments. Furthermore, they play a crucial and multifaceted role in advancing sustainability through the products, services, and advice that they provide to clients and investors.

Leading thoughtfully and progressing on climate mitigation and adaptation efforts, while also facilitating innovation, will help private banks in navigating evolving client needs and addressing some of the most critical sustainability challenges, such as climate change,water scarcity, deforestation, and social issues.

WWF-Singapore's Sustainable Private Banking and Wealth Management (SPRING) framework, along with other tools and industry guidelines such as the ABS Sustainable Private Banking and Wealth Management Guidelines, aim to drive change in private banking and wealth management, driving equitable and sustained positive impact for future generations.

APPENDIX: WWF-SINGAPORE SUSTAINABLE PRIVATE BANKING AND WEALTH MANAGEMENT (SPRING) FRAMEWORK

PURPOSE

1. RELEVANCE OF SUSTAINABILITY IN ORGANIZATION'S STRATEGY AND VISION

1.1 Does the bank explicitly integrate sustainability into the private banking activities? Please share the objectives and commitments that have been set in the bank's strategy and indicate if these objectives and commitments are applicable to private banking activities.

- Reduce GHG emissions in line with the Paris Agreement to limit global warming to 1.5°C (AuMs)
- Expand AuMs invested in sustainable strategies
- Improve quality of existing sustainable investing offering
- Develop new sustainable investing offerings that cover more geographical areas (e.g., emerging markets)
- Expand the sustainable investing offering w.r.t. more asset classes
- Expand the sustainable investing offering w.r.t. SI approaches
- Strengthen the staff training on sustainable investing
- Improve the quality of the reporting on the sustainable investing offering
- Help clients with SI already in the portfolio to increase sustainable investing
- Help clients without SI in the portfolio to invest in sustainable investing
- Others

1.2 Does the bank make reference/maps its strategy and activities to sustainable development goals (SDGs)? If yes, please specify.

2. INDUSTRY COLLABORATION AND PARTICIPATION

1.3 Which sustainability-related collaborative initiatives does the private bank participate in? Please describe your participation (founding member, part of working groups etc.).

- Principles for Responsible Investment (UN PRI)
- Principles for Responsible Banking (UN PRB)
- Task Force on Climate-related Financial Disclosures (TCFD) Recommendations
- Taskforce on Nature-related Financial Disclosures (TNFD)
- Eurosif
- Poseidon Principles
- Net Zero Asset Managers
- Net Zero Banking Alliance
- CDP - Carbon Disclosure Project
- Equator Principles
- The Global Reporting Initiative (GRI)
- Montreal Carbon Pledge
- SBTi
- Asia Investor Group on Climate Change (AIGCC)
- CA100+
- UNEP FI
- Sustainable Blue Economy Finance Principles
- Other international initiatives (please specify)
- Other national initiatives (please specify)

2. INDUSTRY COLLABORATION AND PARTICIPATION

1.4 Does the bank advance the sustainability or ESG agenda by driving awareness through thought leadership, events or research? If yes, please provide examples.

POLICIES

3. RESPONSIBLE INVESTMENT POLICIES

2.1 What are the bank's sustainability policies, covering private banking activities (Investments, lending, wealth planning and philanthropy) and are they available to the public? Please provide details and links.

- Across its investment advisory activities

> Sustainable investment policy (Y/N)

> Asset class-specific guidelines on ESG in investment management (Y/N)

> Sector-specific guidelines on ESG in investment management (Y/N)

> Group-wide exclusion policy (Y/N)

[ ] Oil and Gas

[ ] Coal

[ ] Others, please specify

> Engagement policy (Y/N)

[ ] Does the bank's engagement policy include guidance (guidelines) on engagement with policymakers and on how alignment between its influence as an organisation is aligned with its position on sustainable finance?

Please provide details and links.

> Proxy voting policy (Y/N)

- Across its lending activities
- Across its Wealth planning and philanthropy activities

2.2 Does the bank :

a. Have a client onboarding policy which reviews the sustainability preferences of newly onboarded clients? Yes/No

b. Actively ask your existing clients on their sustainability preferences when providing investment services and during client reviews?

If yes, how do you ask the client's sustainability preferences?

- Sustainable investing (Y/N)
- Ask for E, S, G preferences (Y/N)
- Ask for SDG preference (Y/N)
- Ask for preferred sustainable investing approaches (e.g., exclusion, ESG, impact) (Y/N)
- Ask for other thematic preference (please provide detail in "Comment") (Y/N)

3. RESPONSIBLE INVESTMENT POLICIES

2.3 Does the bank periodically review its sustainability policies? If yes, please specify how regularly the review is conducted.

2.4 How do you monitor compliance with the following?

- Sustainability-related laws and regulations
- Voluntary sustainability commitments of the bank (and specifically WM)

Please provide details and links.

4. ISSUE-SPECIFIC POLICIES

2.5 Does the bank have a policy or statement explaining that the following issues are incorporated into investment decision making, for investment activities? If yes, please provide details and links.

- Climate issues (Y/N)
- Nature/ Environmental issues (Y/N)

> Issue-specific policy (Y/N) [besides fossil fuels)

[ ] Palm oil

[ ] Fisheries and seafood

[ ] Agriculture

[ ] Others, please specify

2.6 Does the bank expect all investee companies under their discretionary portfolio management to set Science-based targets? If yes, please provide details and links.

PROCESSES

5. RESEARCH, STOCK MONITORING AND RISK MANAGEMENT

3.1 Does the bank's global and regional research include ESG considerations and identify how these can impact its investment and financing activities?

3.2 How does the bank incorporate ESG integration into your investment processes?

Examples:

- using ESG information as a filter
- using ESG as a first analysis before the financial analysis
- financial projections also based on ESG
- other (please specify)

5. RESEARCH, STOCK MONITORING AND RISK MANAGEMENT

3.3 Do you use the following in your ESG investment due diligence in your private banking activities?
- raw data from external providers (Y/N)
- one external ESG rating (Y/N)
- more than one external ESG rating (Y/N)
- internal ESG rating (Y/N)
- direct requests to investee companies (Y/N)
- in-house ESG analysis / ESG scoring methodology (Y/N)
- scenario-analysis / tools for integrating climate risk and opportunities (Y/N)
- Others, please specify

3.4 What methods do you use to identify, manage and incorporate ESG risks (climate change, biodiversity, water risk, etc.) in the following activities (please provide examples):
> Portfolio/product construction and product approval
> Environmental
> Social
> Governance
> Discretionary Port Management
> Environmental
> Social
> Governance
> Credit Risk
> Environmental
> Social
> Governance

3.5 Does the bank include ESG considerations in its lending activities?

3.6 Does the bank proactively monitor and review the ESG performance of portfolio companies?

3.7 Does the bank implement periodic audits to assess the implementation of E&S policies and procedures?

6. CLIENT MONITORING & ENGAGEMENT

3.8 Does the bank carry out activities or trainings to raise clients' awareness on ESG topics? If yes, how frequently are these activities carried out?

3.9 Are ESG factors considered during client onboarding and in regular client profile reviews? Please provide details.

7. ACTIVE OWNERSHIP

3.10 Which active ownership services does the bank offer in wealth management for?
DPM mandates?
- Vote on behalf of client in the last reporting year (Y/N)
[ ] Climate change
[ ] Water risk
[ ] Deforestation
[ ] Human rights
[ ] Others, please specify
- Facilitate client voting (e.g., set up voting interface) (Y/N)
- Educate on shareholder resolutions (Y/N)
- Engage with company management on ESG issues (Y/N)
- Employ client assets to help file or co-file shareholder resolutions (Y/N)
Advisory mandates?
- Vote on behalf of client in the last reporting year (Y/N)
[ ] Climate change
[ ] Water risk
[ ] Deforestation
[ ] Human rights
[ ] Others, please specify
- Facilitate client voting (e.g., set up voting interface) (Y/N)
- Educate on shareholder resolutions (Y/N)
- Engage with company management on ESG issues (Y/N)
- Employ client assets to help file or co-file shareholder resolutions (Y/N)
Custodian mandates?
- Vote on behalf of client in the last reporting year (Y/N)
[ ] Climate change
[ ] Water risk
[ ] Deforestation
[ ] Human rights
[ ] Others, please specify
- Facilitate client voting (e.g., set up voting interface) (Y/N)
- Educate on shareholder resolutions (Y/N)
- Engage with company management on ESG issues (Y/N)
- Employ client assets to help file or co-file shareholder resolutions (Y/N)

3.11 Does the bank conduct ESG due diligence on third-party service providers and expect them to be bounded by the bank's ESG policies?
> External asset managers
> External parties used for commercial banking operations
> Other external parties, please state

7. ACTIVE OWNERSHIP

3.12 Does the bank have processes or guidelines which demonstrates how the bank prioritises issues and companies for engagement?

3.13 Does the bank have a mechanism for escalation if engagement fails (e.g. shareholder resolutions, divestment)?

3.14 Did the bank participate in any collective engagements on ESG issues in the last reporting year and disclose its role in the collective engagement which it participates in?

PEOPLE

8. GOVERNANCE

4.1 Does the bank have a clearly defined structure, with roles and responsibilities of the individuals, teams/committees involved in the implementation and monitoring of the bank's E&S strategy? Please share an organisation chart on the teams and individuals involved on both the group-level and private banking arm level.

4.2 Is there board level responsibility for the implementation of the bank's ESG strategy?

4.3 Does the bank have an internal control system with three lines of defence to manage E&S issues? Please provide details.

4.4 Do the terms of reference of the board's nominating committee or the criteria used in appointing new directors cover a requirement to consider sustainability?

4.5 Do the terms of reference of the board's audit committee or the criteria used cover a requirement to consider sustainability?

4.6 Does the bank have a commitment to increase diversity at the board/senior management level, and/or for portfolio managers/investment team? (e.g. gender)

9. SKILLS

4.7 Does the bank have dedicated responsible investment/sustainability specialists? This could be either in-house personnel or the use of specialist stewardship services. Please include details.

4.8 Does the bank conduct training on ESG/sustainability topics for the following personnel? Please include details.
- Client advisors (Y/N)
- Investment Staff (Y/N)
- Senior Management (Y/N)
- Board Members (Y/N)
- Other functions across the organisation (Y/N and please state)

10. INCENTIVES

4.9 Does the bank consider ESG metrics as part of the appraisal process and/or integrated into their KPIs for the following personnel? Please provide examples or details.
- Client advisors (front staff)
> KPIs (Y/N)
> Linked to remuneration (Y/N)
- Investment Staff (Y/N)
> KPIs (Y/N)
> Linked to remuneration (Y/N)
- Senior Management (Y/N)
> KPIs (Y/N)
> Linked to remuneration (Y/N)
- Board Members (Y/N)
> KPIs (Y/N)
> Linked to remuneration (Y/N)
- Other functions across the organisation (Y/N and please state)
> KPIs (Y/N)
> Linked to remuneration (Y/N)

PRODUCTS

11. INVESTMENTS

5.1 Does the bank disclose publicly the sustainable investment approaches used for the sustainable products/funds? Please provide details, the types of investment approaches and products.
- Exclusion (Y/N)
- ESG integration (Y/N)
- Thematic investing (Y/N)
> If yes, how have the themes been selected?
> If yes, which themes are available?
Renewable energy
Energy efficiency
Biodiversity
Water
Healthcare
Education
Affordable housing
Gender and racial equality
Other, please specify
- Impact investment (Y/N)
> If yes, please provide a description of how your products bring about positive E&S impact
> If yes, do you disclose impact to the clients?
- ESG screening (Y/N)
- Others (Please state)

5.2 How does the bank track the AUM of sustainable investments?
The AuM in SI is tracked in total.
> Method (Absolute numbers /Relative numbers)
> Tracked number of AuM
The AuM in SI is tracked in WM.
> Method (Absolute numbers /Relative numbers)
> Tracked number of AuM
The AuM in SI is tracked in AM.
> Method (Absolute numbers /Relative numbers)
> Tracked number of AuM

12. WEALTH PLANNING & PHILANTHROPY

5.3 Does the bank provide philanthropic opportunities to clients? Please provide examples or details.

5.4 Does the bank take into account ESG factors while assisting clients who wish to use their philanthropic funds in projects such as concessional finance mechanisms, blended finance projects, etc.? Please provide examples or details.

PORTFOLIO

13. RISK ASSESSMENT

6.1 Does the bank continuously monitor its portfolio for E&S risk incidents (e.g. deforestation, water scarcity, or human rights violations)? If yes, please specify the types of risks the bank reviews.

6.2 Does the bank periodically review its portfolio exposure to climate-related physical and/or transition risks, using forward-looking scenario analysis, and disclose the results and methodology used? If yes, please specify which mandate (s) is scenario analysis carried out for and what type of scenarios are used:
- DPM
- Investment Advisory
- Wealth Planning
- Others : Please specify

6.3 Does the bank have a strategy to manage and mitigate climate-related risks across its portfolio? If yes, please specify.

14. METRICS & TARGETS

6.4 Does the bank measure non-financial return/impact? Please indicate the frequency of measurement (Monthly, Quarterly, Semi-annually, Annually, On Request, Other (please specify in comment section. (Drop-down per method)
> Across aggregated investment portfolio
- Carbon footprint (Y/N)
- Carbon emissions avoided (Y/N)
- Water efficiency (Y/N)
- Energy efficiency (Y/N)
- Disposal of waste (Y/N)
- Health and safety (Y/N)
- Human capital management (Y/N)
- Corporate conduct (Y/N)
- Other, please specify.
> Across aggregated lending portfolio (Y/N)
- Carbon footprint (Y/N)
- Carbon emissions avoided (Y/N)
- Water efficiency (Y/N)
- Energy efficiency (Y/N)
- Disposal of waste (Y/N)
- Health and safety (Y/N)
- Human capital management (Y/N)n
- Corporate conduct (Y/N)

6.5 - Other, please specify.

6.6 Has the bank set a combination of short-term targets and milestones?

15. DISCLOSURE

6.7 Do you report or plan to report on climate-related risks and opportunities? If yes, does the bank publish a TCFD report or align its public reporting with the TCFD recommendations?
Please provide the link to the TCFD report and indicate if Wealth Management (and the corresponding details) is included in the report.

6.8 Does the bank disclose the non-financial aspects of your sustainable investments to your clients?
Drop-down per method:
GHG emissions / carbon footprint
% of excluded instruments from the investment universe
Number of engagements undertaken
Outcomes that resulted from engagement
Number of executed proxy voting
Outcomes that resulted from proxy voting
Realised impact
ESG rating on product level
ESG rating on portfolio level
Other, please specify in comment section below
Sustainability risk assessment (qualitative information)
Sustainability risk assessment (quantitative information)
Other (please specify below)

6.9 Does the bank report on your responsible investing or sustainability investing actions in:
- a dedicated corporate and social responsibility (CSR) report
- the annual report
- Other (please specify)
Please provide the relevant website links.
Dropdown options for each row:
> Y/N
> Publicly available? (Y/N)

6.10 Does the bank conduct external assurance of its ESG-related disclosures? If yes, please provide details.

6.11 Does the bank track and disclose progress towards 1.5C alignment at least annually?

WWF

Working to sustain the natural world for the benefit of people and wildlife.

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