Banks miles away from hitting Paris climate targets

By Ed Davey | News | July 28th 2022

People attend a Climate Strike demonstration in Zurich, Switzerland, on Nov. 6, 2021. (Michael Buholzer/Keystone via AP, File)

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The world's most influential banks need to substantially accelerate climate efforts if global temperature rise is to be kept within the targets of the Paris Agreement, an assessment released Thursday by an institutional investors group warned.

The efforts of 27 giant banks in North America, Europe and Asia to align their policies with global warming of no more than 1.5 degrees Celsius (2.7 Fahrenheit) are falling far short in every area measured in the pilot study, obtained exclusively by The Associated Press. The report said no major bank has committed to end financing for new oil and gas exploration, and only one has promised to cut all coal financing in line with International Energy Agency guidelines.

The evaluation was prepared by the Institutional Investors Group on Climate Change (IIGCC), whose more than 350 members are mainly asset managers and owners. They include Barclay's Bank UK Retirement Fund, BlackRock and Goldman Sachs Asset Management International. Group members have €51 trillion ($52 trillion) in assets under management and advice, according to the IIGCC website. That amounts to roughly a tenth of total assets held by financial institutions worldwide. The Transition Pathway Initiative, a research group that tracks corporate emissions, was a co–author of the report.

The evaluation is significant because it comes from within the financial community, echoing the idea that fossil fuel investments must wind down, which environmentalists, climate scientists and energy experts have argued for years.

Witold Henisz, vice dean of the environmental, social and governance initiative at the Wharton Business School, said the study "establishes convincingly that banks are not yet demonstrating substantive progress towards net zero, and often even their own commitments." A growing body of research suggests low public rankings shame companies into responding, he said — and investors may punish them.

Any quibbles over methodology "will not alter the above high-level conclusion," he added.

The study assessed banks for six areas where they should be showing progress if their lending and other services were aligned with a sharp ramp down of emissions: the strength of net zero pledges; short- and medium-term emissions targets; decarbonization strategies, namely, plans for exiting polluting industries; lobbying on climate regulation; how climate risk is reflected in accounts and audits, and governance, meaning how climate risks are incorporated into leadership structures.

Evaluators set benchmarks for each area. Banks were graded on how many they hit. A 100% rating would mean a bank was completely aligned with the Paris goals in that category.

On their commitments to reducing emissions in their lending portfolios to zero, the banks, in aggregate, came in at 20%. On short– and medium–term climate targets, which demonstrate a pathway to net zero goals, they met just 10% of indicators. And the report found 1% of banks' lobbying practices are consistent with the 1.5 C goal.

"The level of urgency must ratchet up," said Natasha Landell–Mills, head of stewardship at investment manager Sarasin and Partners, and co–chair of the IIGCC working group. "Banks still have a long way to go."

As gatekeepers of the world's money, banks play a critical role in climate change, the study said. They make new fossil fuel projects possible via financing. They decide whether to lend money for coal mines and for agribusinesses that fell tropical rainforest. There are other sources of finance, and private equity in particular has a growing role, but banks remain the most important.

Two–thirds of banks have committed to achieving net zero carbon emissions, the study found, but these commitments "vary widely." Only UBS commits to net zero over its entire business, the study found.

The four Chinese banks in the report, Agricultural Bank of China, Bank of China, China Construction Bank and the Industrial and Commercial Bank of China, have made no commitment to net zero emissions, the study found. They were the worst–rated institutions, each scoring zero in five of the six categories assessed.

The AP sought comment from these banks on several occasions, but none responded.

Each year, a body known as the Financial Stability Board, based in Basel, Switzerland and created by the Group of 20 heads of major economies, gauges which banks in the world are most influential based on their size and importance to the global financial system. The world's four most influential banks in 2021 — JPMorgan Chase, BNP Paribas, Citigroup and HSBC — each were assessed at zero in two or three areas in the evaluation. Climate governance was the only category where all were judged to be making substantial progress.

By email, Citigroup and JPMorgan both declined to comment. Both banks published targets to align the company's practices with the Paris goal in spring 2021.

In a statement, BNP Paribas said it has made new climate commitments, including a 25% reduction in oil financing, since Feb. 25, the last date included in the research. The bank reasserted its commitment to achieving a carbon-neutral economy by 2050 and limiting global warming to 1.5 C. BNP Paribas has implemented "pioneering policies" to protect the climate and biodiversity, especially in forests, it said. It will "progressively reduce its exposure" to companies that won't decarbonize fast enough.

An HSBC spokesperson said via email the bank is also committed to net zero, adding: "We recognize that our global footprint means we can play a critical role." The IIGCC report "acknowledges the progress we have already made," she said, including a commitment to phasing out coal financing. The bank is reviewing its climate and energy policies, the spokesperson said.

Scientists say emissions must sharply ramp down in the short and medium term, so benchmarks for 2030 and 2035 are crucial. Only three banks, Barclays, ING Bank and Société Générale, have published short-term targets to reduce emissions from activities they finance, the study reveals. Nine have published medium-term targets. This is "problematic," the study said, because targets help investors gauge how serious banks are about decarbonizing.

“If too many banks plan to backload emissions reductions, global emissions will not be curbed rapidly enough,” the authors wrote.

With regard to deforestation, which can release massive carbon dioxide when forests are burned, only HSBC has made comprehensive commitments to ending financing, the study says.

“For all the awareness at board level, there are not yet changes at a strategic level,” said James Vaccaro, executive director of the Climate Safe Lending Network, which pushes for decarbonization in the banking sector.

Vaccaro, who has 20 years’ management experience in sustainable banking and investment, added there are “reasons to remain hopeful amidst the dismal assessment of the state of banking today." He singled out Barclays for praise, saying its targets were very comprehensive.

Bank lobbying, which can attempt to influence and weaken climate laws, also veered far from a 1.5 Celsius pathway, the study said. And it found banks don’t ensure that their trade associations lobby in accordance with the agreement. Only the Bank of Montreal discloses all its trade association memberships on its website and in reports.

Bill Weihl, a former sustainability chief at both Facebook and Google, who campaigns against lobbying groups, said by email the findings explain why climate policy repeatedly fails to get enacted. “We need to see the private sector step up and use its powerful influence for climate policy gains.”

Not one of the banks links executive pay to emissions, the study found.

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