

# Climate Safe Lending Network's response to the Banking on Climate Chaos: Fossil Fuel Finance Report 2022

The Climate Safe Lending Network recognises the essential role that the *Banking on Climate Chaos* report plays holding a mirror up to the financial sector and the huge gap between current activity and where we need to be. It is testament to the dedication of committed NGOs that the issue is now more widely understood and acknowledged.

*The following reaction is a personal perspective of the Executive Director of the network, James Vaccaro, and doesn't necessarily reflect the views of all of the participants within the network:*

## **No change?**

On face value, there is very little to feel positive about. The numbers show that there are still considerable flows of finance to fossil fuel companies at similar rates to that in previous years. There is a reduction in the flow towards fossil fuel expansion, but this may be cancelled out in the year ahead by pressures in energy markets. The lack of progress in the published figures is in stark contrast to the climate commitments made in the run up to COP26 and the momentum of net zero alliance under GFANZ. However, we should remind ourselves that these numbers, based upon the annual reports, would not be able to show underlying progress as a consequence of very recent policy changes. And beyond the gloom there are reasons to remain hopeful that change might still come.

## **Seven reasons why we might be at a tipping point of bank action on climate.**

Surely, we can't expect there to be no progress on fossil fuel finance year after year forever. How can we know when the tipping point will be reached, and change will really start to happen? The Climate Safe Lending Network works with bankers, investors, NGOs, and academics – and we see some signals that we might be very close to that tipping point. Here's our reasons to be hopeful:

1. **Internal influencers:** There are really consequential conversations taking place within banks, at senior and board levels. And there are powerful advocates for more progressive, serious, and urgent action on climate pushing for change in a much better place to influence than they were in a

few years ago.

2. **Normative Behaviour:** There's a constant scanning of the market with each bank checking on what others are doing, making sure that they are not seen as lagging behind the 'pack'. When there's not much movement, this can lead to more inertia, but when you see banks start to move then it adds to the momentum. And what's interesting with normative behaviour in markets is that regulations tend to follow.
3. **Transparency & Visibility:** There's far more consistent visibility (via NGO analysis and reports, AGM resolutions, public campaigns, and news attention) demonstrating this is not just a news cycle issue that will blow over. It's now recognised that it's an issue that needs to be dealt with and institutional credibility will be predicated on how comprehensively it is addressed.
4. **Core beliefs and broken truths:** There's a shift amongst senior management on some of the fundamental core beliefs and 'truths' of the past. For example, a few years ago many bank executives could be heard saying "that the energy mix will be at least half fossil fuels in the 2050s", that "universal banks can't really do exclusion", or that "scope-3 reporting of financed emissions won't catch on" because indirect impacts don't count. These were commonplace perspectives only a few years ago. These don't appear to be truths any more in the majority of banks. Now that the core beliefs have changed, there's a new set of questions about what the actions need to be.
5. **Logical Consistency:** Once you get banks invoking IEA NZE2050 and excluding certain types of assets then there is a philosophical bridge that you kind of have to keep walking to its conclusion. Take ING's recent position on ending direct finance for oil and gas expansion projects. Its relative impact is quite small since most fossil fuel finance is not direct, but via corporates through general-purpose lending. But it leads to a logical consistency question – why stop there? Likewise, NatWest ending oil and gas expansion with the exception of the UK – surely not a position that will last long. Or shifting a bank's business to intermediaries or capital markets

without accounting for the carbon. All of these workarounds and loopholes are going to be monitored, exposed, and challenged. Once you start on this path, there's no logical reason to stop until you've finished.

6. **Green growth might get slowed down by polluting reputation:** There's massive growth in the green economy – with the majority of new energy infrastructure investment going into renewable energy, energy efficiency, and green hydrogen. Banks' polluting reputation based on fossil fuel finance could start to be a serious reputational 'drag' on the growth prospects in the most attractive new green growth markets. When green lending teams start seeing this restrictive force impacting on their client relationships, they are more likely to apply internal pressure. And with more business coming from green sectors, their agency is increasing.
7. **Monitoring and Managing:** There's simply more data out there on climate impacts and while it's not always easy to analyse, the ability to 'make sense out of data' is about as fundamental as it gets in being able to run a bank. There will be increasing transparency on transition plans and more visibility about how the finance flows – what is supporting transition and what is expanding the problem. And levers exist in order to implement incentives and covenants to steer clients and impose consequences they don't move fast enough.

We shouldn't kid ourselves that we are looking at a problem that has been intransigent at a time when the world can least afford it to be. But I don't buy into the cynicism that banks are monolithic entities who don't care. They're complex, decision-making, social organisms made up of hundreds or thousands of people. Their people are increasingly becoming aware, educated, and concerned about the planetary predicament of a climate that may become inhospitable to civilisation and the loss of nature and biodiversity which we depend upon as a life support system. And they recognise the connections between the actions of financial institutions and what happens in the economy, the responsibility that comes with it, and the agency they could have to positively influence change.

I think that there is a finely balanced battle for the soul and purpose of banks which is very close to its tipping point. That doesn't deny the fact that there are

real commercial pressures, legacy vested interests and significant proportions of leadership who are not fully bought into a societal purpose. I am genuinely curious about what will be 'enough' to trigger the inevitable wave of action. I suspect it is when customers – businesses and individuals – start to act beyond signalling.

I see one huge counterforce to this optimistic outlook in the short term: the Russian invasion of Ukraine has sparked an energy crisis which is triggering further expansion investment. It is unlikely to be sustained and together with the countervailing investment in energy efficiency may lead to an even larger crash (disorderly transition) later in the decade – with no additional capital to cushion the blow. But it might be hard for [banks or fossil fuel companies to turn down](#). Like the addicts “one last hit” fallacy, there’s a risk that we build in even more path dependency which will set back climate progress by a decade that we don’t have to spare.

Change will happen when enough people start standing up and making the change themselves. That means bankers taking real action and reflecting on how they can lead most effectively. We’re supporting those individuals through the [Climate Safe Lending Fellowship](#) – an immersive leadership development program for climate intrapreneurs within banks.

It’s not just people within banks who can make a difference. Clearly NGOs are shining a light on the need for action with great impact and effect. For change to really be in full swing, we’d expect to see customers starting to shift. Already, [more than half of them](#) say they’d be prepared to shift their business to another bank on the basis of climate. When they start doing that, it’s going to be noticed by the banks and is likely to make a real difference. That’s when you get a real ‘race to zero’. We need it to start soon.