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US banks under pressure to prioritize sustainability while still supporting fossil fuels

Article

The news: Some of the biggest US banks have been forced to talk up their ties with oil and gas firms to appease politicians who are penalizing them for not supporting the fossil fuel industry, according to the Financial Times.

ESG backlash:

- West Virginia is among the Republican-led states penalizing banks for their support of environmental, social, and governance (ESG) policies, rather than the fossil fuel industry.
- In July, it banned **BlackRock**, **JPMorgan**, **Goldman Sachs**, **Morgan Stanley**, and **Wells Fargo** from new state business for "limiting commercial relations" with coal mining firms.
- And in Texas, a new bill bans state investments in firms that slash ties with the oil and gas industry.

Banks backtrack: Some US lenders have responded by emphasizing their investments in the oil and gas sector.

- Goldman Sachs sent a letter to West Virginia's treasurer saying it had **provided more than $118.9 billion in financing to fossil fuel companies since 2016** and $17.8 billion in 2021.
- JPMorgan also sent a letter saying its **$42.6 billion credit exposure to oil and gas** companies was evidence it didn't discriminate against fossil fuel companies.

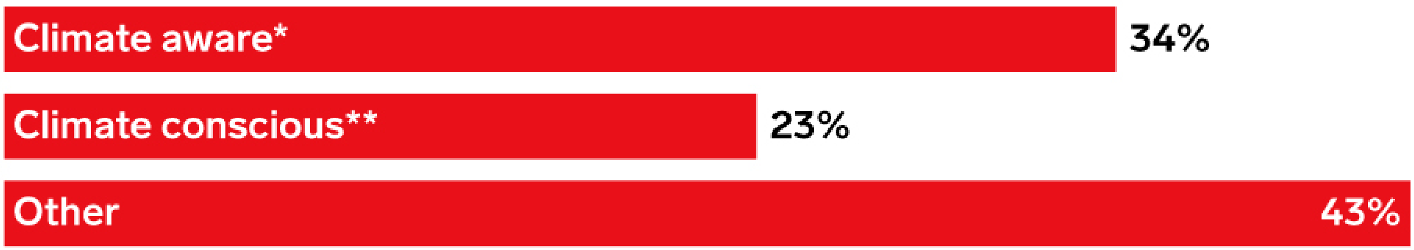
Catch 22: Banks are stuck between a rock and a hard place in trying to appease those trying to protect the coal and gas industry while simultaneously placating the environmental concerns of customers and shareholders.

Part of the problem is that fossil fuels are highly lucrative for banks. They **earned $16.6 billion in fees stemming from the energy sector (including oil and gas) between 2016 and 2020**, per Bloomberg. That's more than double the earnings from green debt.

But consumers care about banks' ESG efforts: **One in four customers said they'd leave their bank over poor environmental and social track records**, per Kearney data. And **over two-thirds (67%) of consumers want their bank or financial institution to become more sustainable**, according to Mambu**.**

Climate Change Importance According to US Adults, July 2021

% of respondents



*Note: n=3,150; *climate change is very important, but not the most important social challenge; **climate change is the most important social challenge*
Source: Cornerstone Advisors, "Going Green: The Climate Change Opportunity in Banking" commissioned by Meniga, Sep 1, 2021

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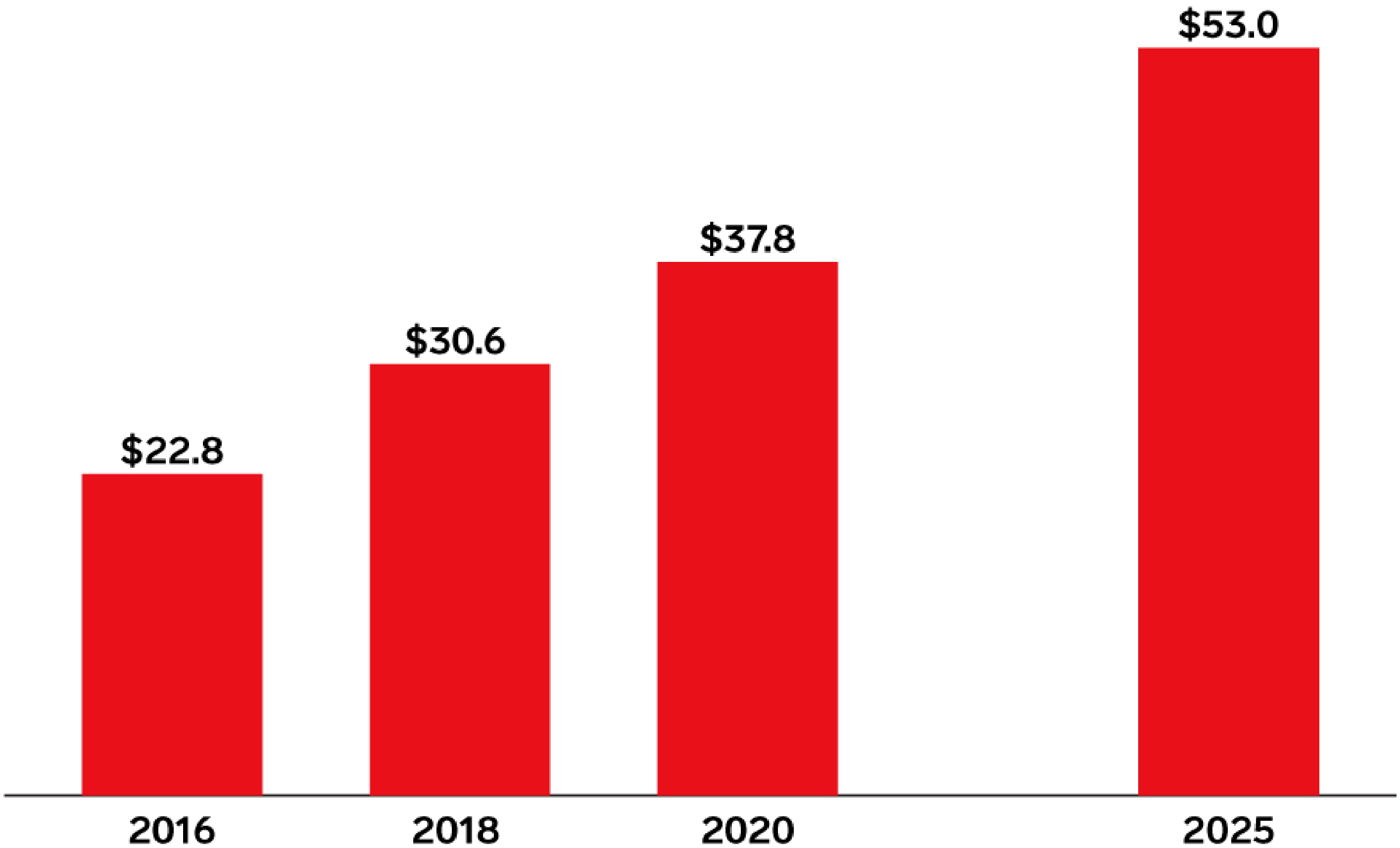
The big takeaway: US banks are in an undeniably difficult position. That's left Goldman Sachs and JPMorgan trying to keep a foot in both camps. They're highlighting their backing for fossil fuels to Republican politicians while also presenting themselves as making sustainability efforts.

Banks should take a long-term view when weighing the choice between focusing on sustainability or backing coal and gas. Those that transition away from fossil fuel investment into other growth areas may suffer initially, but they'll more than make up for this financially further down the road. **About half of the world's fossil fuel assets will be worthless by 2036** under a net zero transition, per scientific journal Nature. Banks that fail to transition will take a hit to their bottom line as well as their public image.

Read on: *Check out our* ***Sustainable Banking report*** *to learn more about how banks are balancing sustainability with sustaining profits.*

Environmental, Social, and Governance (ESG) Assets Growth Worldwide, 2016-2025

trillions



Source: Bloomberg as cited in company blog , Feb 23, 2021

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