Jenna McNamee

Banks are financing fossil fuel projects at a decreasing rate—a complete stop will take time

Article

The news: US banks remained major financiers of fossil fuel projects in 2022, though Canadian banks are quickly catching up, according to The Rainforest Action Network's Banking on Climate Chaos report. But despite the still-large sums directed to fossil fuels, banks are beginning to cut back, per Banking Dive.

Fossil fuel financing in review: In 2022, oil and gas companies reported nearly $4 trillion in profits, thanks to the geopolitical tension in Ukraine and the resulting energy crisis. But those profits didn't slow down banks' fossil fuel financing—which amounted to $673 billion, according to the report.

- US banks accounted for 28% of total fossil fuel financing in 2022. **JPMorgan** topped the list of financiers, followed by **Citi**, **Wells Fargo**, and **Bank of America**.
- But Canada's **RBC** was 2022's largest fossil fuel financier, investing just over $42 billion. In total, Canada's five largest banks allocated nearly $140 billion to fossil fuel investments.

A blind eye toward progress: Climate activists are quick to point out that all of the US banks financing fossil fuel projects are members of the Net-Zero Banking Alliance, and that Canada was an original signer of the 2015 Paris Climate Agreement. But they don't always emphasize the reductions banks in the US and Canada have made so far.

- Last year, JPMorgan slashed its fossil fuel financing by 42%, while Citi cut funding almost 28% and Wells Fargo reduced it by about 21%.
- Overall, the 60 banks studied in the report reduced fossil fuel financing 16% YoY between 2021 and 2022.

Climate activists claim, however, that the reductions occurred not due to actions taken by the banks, but because the record profits gas and oil companies enjoyed meant they didn't need as much financing.

A sticky situation: Banks in both countries are performing a balancing act between fossil fuel financing and climate change. The pledges they've made toward climate change sometimes risk future business and economic growth.

- In the US, banks face business boycotts from oil- and gas-dependent states like West Virginia and Texas. These states see banks' ESG pledges as a threat to the industries and their economies. To win back their business, banks are touting their fossil fuel investments.

- In Canada, oil and gas remain the economy's primary export, accounting for nearly 8% of Canada's GDP in 2019, and are considered the "backbone of the Canadian economy."

Our take: The transition to stopping all new investments in fossil fuels and fossil fuel divestment is going to take time, and the impacts of the transition will likely affect more than the climate.

- Many economies rely on oil and gas for at least some percentage of their GDPs. A sudden stop in fossil fuel financing could potentially cause some economies to contract if they don't have the infrastructure to replace oil and gas activities with cleaner alternatives.
- Divestment from fossil fuels also isn't simple. Divesting from fossil fuels requires selling an asset, but it also requires a buyer on the other side. The asset doesn't just disappear, and a sudden halt in investment will cause the asset to rapidly lose value. But the asset might be part of a mutual fund or other investment vehicle that is part of consumers' retirement accounts, a school's endowment, a charity's foundation, and so on. Consumers and businesses could see their savings wiped out.
- Over time, running off an investment in a fossil fuel project—essentially wearing the project into the ground without new investment—will lead to a smoother transition for economies and investors.

US Digital Banking Users' Perception of Their Banks' Corporate Ethics, June 2022
% of respondents

	Strongly agree
Policies reflect customers' priorities and concerns	21.4%
Cares for the rights and wellbeing of its workforce (e.g., supports flexible working)	18.3%
Marketing and messaging accurately reflects corporate values	17.6%
Aligns corporate ethics and values with current issues (e.g., ties executive pay to ESG targets)	17.5%
Uses philanthropy to support the communities it serves	13.3%
Mitigates its negative social impact (e.g., through bias elimination in decisioning algorithms)	12.6%
Mitigates its negative environmental impact (e.g., through fossil fuel divestment)	11.7%

Note: numbers may not add up to 100% due to rounding
Source: Insider Intelligence, "US Banking Digital Trust Benchmark 2022," Aug 2022
276779 InsiderIntelligence.com

*This article originally appeared in Insider Intelligence's **Banking Innovation Briefing**—a daily recap of top stories reshaping the banking industry. Subscribe to have more hard-hitting takeaways delivered to your inbox daily.*

- *Are you a client? [Click here to subscribe.]*
- *Want to learn more about how you can benefit from our expert analysis? [Click here.]*