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Will Paige

Green banking groups need clarity on how best to deal with climate change

Article

What we've been noticing: Groups of banks set up to combat climate change are taking differing approaches as they look to cut carbon emissions while dealing with a complex and increasingly politicized problem.

We look at some of the green initiatives banks are involved in and how they're faring.

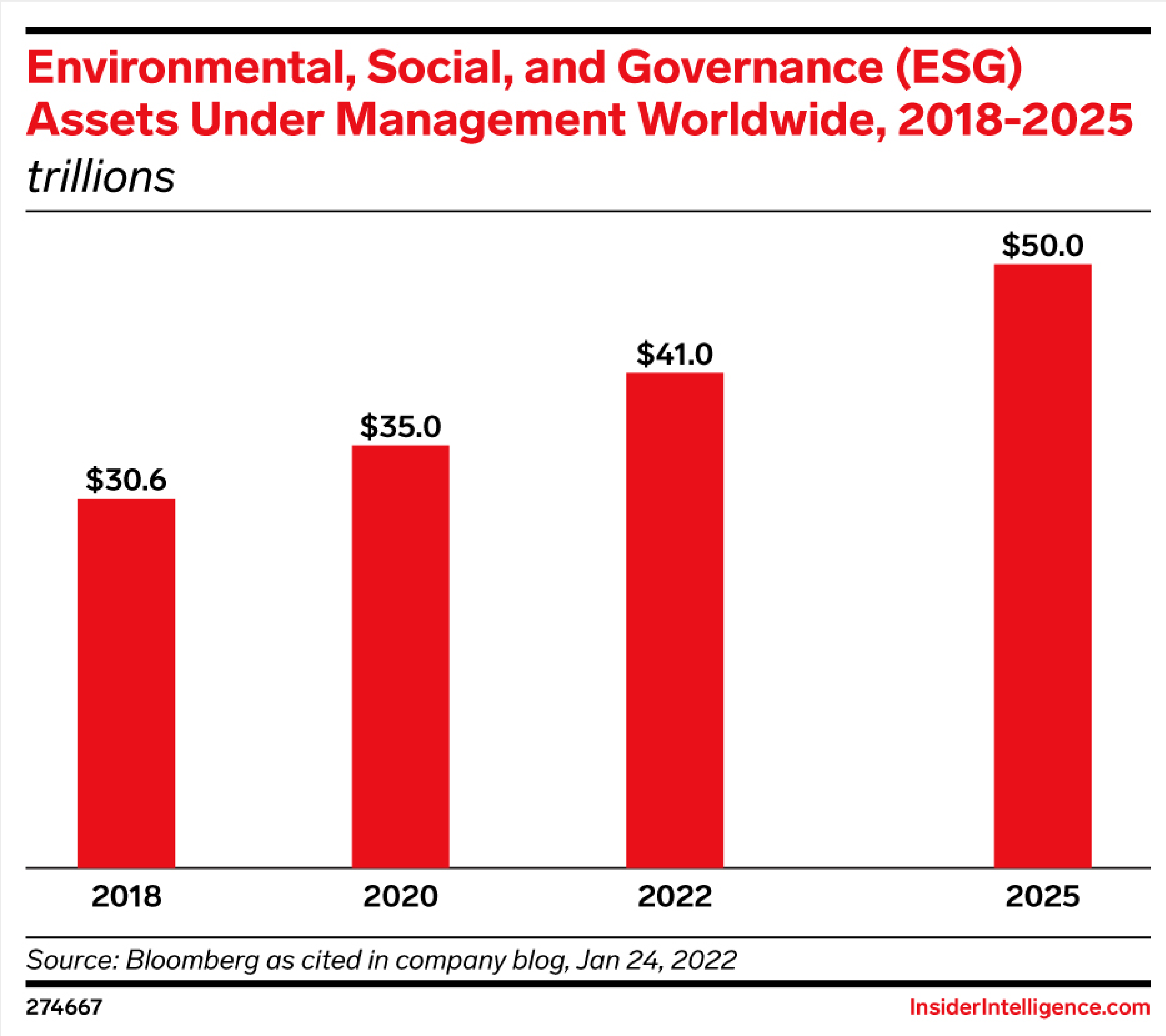
Carney's sustainability alliance: Former Bank of England governor Mark Carney set up the **Glasgow Financial Alliance for Net Zero (Gfanz)** just last year. Now the group counts more than 450 financial institutions (FIs), accounting for $130 trillion in assets, among its members.

Gfanz aims to help FIs cut greenhouse gas emissions to net zero by 2050. But the group has been dogged by recent setbacks:

- **Santander**, **JPMorgan**, **Morgan Stanley** and **Bank of America** are all reportedly considering leaving the group due to fears of the legal risks tied to strict targets on cutting fossil fuel use, according to the Financial Times.
- And last week **two pension funds became the first FIs to officially leave**. US politician and environmentalist Al Gore said it was obvious some companies aren't going to honor pledges made.
- Critics can also point to the Western focus of Gfanz and a **lack of participation from FIs in India, China, and Russia**. The three countries contribute just one company to the group, but all are among the biggest carbon-polluting nations, per Climate Trade.

Banking 'study group' guidelines: A self-proclaimed "study group" of FIs outlined guidelines for banks that want to finance low-carbon projects without jumping immediately to net-zero. The Asia Transition Finance Study Group includes 19 members, mostly from Asia, including **MUFG Bank**, **Barclays**, and **HSBC**.

The group's suggestions take into account recent energy disruptions due to the Russia–Ukraine war and focus on how banks should consider reducing emissions from existing sources, as well as switching to cleaner energy and decarbonization technology.



Our take: The patchwork of green banking groups and initiatives highlights the complex challenges that major lenders face and their understandably differing approaches. FIs must contend with new regulations, scrutiny about greenwashing, and public pressure while still maintaining profits. Politically mixed messages aren't helping: David Malpass, president of the World Bank, was recently criticized by the White House after refusing to answer when asked about how humans contributed to global warming.

In this ever-changing environment, we won't be surprised if more banks make u-turns on the best way to combat climate change. It's unrealistic to suggest immediate cuts to fossil fuel investment. But gradually reducing this financing will help prepare banks for stricter regulations, and can also bolster their brands, attract new customers, and prepare them for long-term net zero emissions targets.