Global Alliance for Banking on Values

GABV Position Paper

Climate Action and the Role of Finance

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Why the GABV needs to respond

There is an increasing consensus about the critical role finance must play to address climate change. Yet commitments to act across the financial sector while growing are not universal and where they do exist there remains a profound disconnect between commitments and action. Enormous quantities of finance continue to flow to unsustainable activities exacerbating the problem of climate change, and inadequate flows of finance are directed to activities that offer a solution. This must stop. The IPCC's recent report is unequivocal. Climate change is widespread, rapid and intensifying. Without financial institutions playing their part, addressing both environmental challenges and their consequences for people and ecosystems, we will not be possible.

With this paper we want to help our members better understand the issue and our overall approach so that they feel equipped to put in place measures commensurate with the needs of their communities and the ambition of values-based banking.

In addition, as a movement of frontrunners, we want to lay out our position to influence the industry and its stakeholders to move further and faster to address the climate emergency. Change is happening fast and there is a plethora of initiatives addressing climate finance. So, it is also a matter of maintaining our movement's leadership role.

The starting point for our position on climate change is our vision that finance is here to serve people and planet, not the other way around. It also reflects our mission to expand and strengthen the practice of values-based banking, and to lead the way for a financial system that promotes social equity, responds to the planetary emergency and delivers true and lasting prosperity and well-being to all people.

We recognize that not all members are at the same stage and that members operate in different contexts and therefore with different core priorities. We have some members that are more experienced in developing and implementing a climate agenda than others, and we draw on their experience when formulating our call for action. We recognize that climate change is a universal challenge that's relevant for all our members, even if the needs and solutions of their clients, communities and themselves are different.

Increasing momentum

The Paris Climate Agreement in 2015 galvanized the international community behind a legally binding international treaty on climate change. Importantly, it included explicit references to the crucial and collaborative role that the financial industry would have to play if the increase in global temperature from pre-industrial levels is to stay in a safe space below 1.5 degrees. Since then important initiatives have developed including the Race to Zero global campaign, the various UN-convened net zero alliances of asset owners, banks, and insurance, commitments to measure and disclose financed emissions, and the 26th UN Climate Change Conference of the Parties (COP26).

As an example of a collaborative effort to create genuine change, at the time of writing over 150 financial institutions with combined assets of USD 50 trillion, including some of the largest financial institutions in the world, are signatures to the Partnership for Carbon Accounting Financials (PCAF). They have committed to assess and disclose the carbon emissions of their loans, investment and insurance finance. Many have built on this data to set targets to align with the Paris Agreement goals. And the numbers are growing. Accounting for carbon emissions is not a panacea and will only result in climate action if all participants follow up with coherent approaches to climate action, but it is an important step in the right direction.

We provide an overview of the most important global initiatives in the annex taken from the Strategic Framework for Paris Alignment Document produced by the PCAF Secretariat, a detailed guide on the global climate finance agenda.

A better response

Values-based banks are already decisively tackling climate change through a comprehensive set of measures. They include:

- avoiding from harmful projects and activities such as fossil fuels and other greenhouse gas intensive industries
- enabling innovative projects and activities that help mitigate climate change or even sequester carbon
- sensitizing their clients and helping them transform or adapt to climate change, by providing capital, finance, know-how, and resources
- advocating for changing the framework conditions, e.g. contributing to the development of industry or national targets, market pricing, regulation, etc. so that they better reflect the true price of climate change and send the right signals to markets
- establishing transparency by measuring and publishing greenhouse gas emissions, and

- committing to reduce their greenhouse gas emissions in line with the Paris Agreement or even faster.

We recognize that in the meantime many mainstream banks are also pivoting to pursue this path, which is encouraging but not without significant barriers to its achievement. In practice, values-based banks are typically considerably better aligned with Paris than the mainstream banks already, because of their historical values-based approach.

Values-based banks are guided by intentionality and purpose, driving them towards sustainable sectors in the first place, and away from harmful activities. It also means they are more consequent in their actions.

They take an integrated and coherent view, making them aware about potential conflicts and challenges. Because of that they do not simply focus on mitigation, but also support resilience and adaptation. Climate change is not considered in isolation.

A client-centered approach means that values-based banks do not look at climate finance primarily through a business and portfolio lens or through a risk lens, but through the lens of the interests of their clients and communities, and consider how they can support them to adapt and transform.

Values-based banks take a long-term perspective, allowing them to see not just the risks but also the opportunities of climate change. They are willing to forego profits in the short-term to accelerate the response to the climate emergency, since they believe in the opportunity this will provide in the longer term. They innovate to support their own financial viability and resilience while continuing to prioritize purpose and impact.

Values-based banks' commitment to the highest degree of accountability and transparency means that their commitments to address climate change are bolstered by transparent, ambitious and time-bound action.

Financial sector must act faster and go further

Although values-based banks are more ambitious, intentional, and coherent in addressing climate change than mainstream banks, this still is not enough. The financial sector as a whole must act faster, go further, and be more coherent.

As a movement of frontrunners, we advocate for an ambitious approach. We commit to measure our emissions and reduce them in line with the Paris Agreement, or faster. This means implementing strict exclusion criteria and divesting from non-essential activities that are harmful.

The current discussion about climate finance overly focuses on mitigation and risk management and should increasingly consider adaptation and resilience building. We will look at climate change comprehensively and not leave the clients and communities that are most affected behind. For this we aim to understand the impact of climate change upon our clients and communities, and how we can help them transform and adapt.

Finally, the financial sector cannot solve it all. All stakeholders involved must tackle the challenge together in a coordinated and coherent manner. We therefore need to ensure that our ambition is shared by our clients, regulators, policy makers and the public at large, by engaging them and seeking their collaboration. Only then will we succeed in transforming the economy in a way that it remains within the planetary boundaries.

Net zero

Delivering on net zero commitments means, in the words of the Climate Safe Lending Network, to take responsibility for climate risk, to be accountable for climate impact, to stop the flow to fossil fuels, to decarbonise balance sheets, and to finance innovation for a sustainable future. For GABV members this translates into intentionally addressing climate risks, promoting and financing environmental regeneration, continued exclusion of sectors that harm both people and the planet, and deep and purposeful internal strategic dialogue to align portfolios with a 1.5-degree future.

The number of banks committing to net zero by 2050 or even sooner is rising. We applaud such commitments. But we emphasize that they must be underpinned by concrete and timely action if they shall remain credible. Mainstream banks with a heavy exposure to fossil fuel related sectors must divest rapidly if their net zero claim is to be credible, and must do so fairly avoiding portfolio shifting.

Ultimately, the financial industry can only achieve net zero when the real economy they serve becomes carbon neutral and fully circular. This will require a different economic structure that provides services solutions (e.g. mobility) rather than physical products (e.g. cars), and emphasizes innovation over growth. We all need to work together to achieve this goal.

An agenda for change

We commit to strengthen our members in their transformation by providing resources and know-how, enabling knowledge sharing and exchange, and advocating for rules and regulations that are enabling and not hindering change. As frontrunners in sustainable finance and values-based banking we must lead the way.

We welcome the far-reaching measures undertaken by many of our members. We call upon those that have only recently begun to address climate change to:

- better understand the relevance and impact of climate change for their clients and communities, and help them transform and adapt,
- transform their own business and align with the Paris Agreement goals,
- enable innovation and scale up future proof solutions by providing much needed capital and finance,
- avoid and divest from from industries that contribute directly to climate change, such as fossil fuels, with little or no prospect of transitioning away, and review their exclusion criteria for this purpose,
- engage with stakeholders and support collaboration and coordination,
- measure and publish greenhouse gas emissions,
- commit to reduce greenhouse gas emissions in a time-bound and ambitious manner.

While commitments from mainstream banks are rushing in, they need to be substantiated. You cannot have your cake and eat it. Reducing the exposure to greenhouse gases will require some tough choices. We call upon the mainstream financial industry to accelerate the pace and depth of transformation, and to be coherent, transparent, and accountable in its actions.

Specifically, financial institutions should:

- act on their own accord, living up to the social and environmental responsibility that banking brings. They should absorb the costs that come with these changes, and not wait for policy makers and regulators to take action,
- take a comprehensive and coherent view across all business activities, and not look at climate change narrowly through a financial risk or product lens,
- transparently and fairly accelerate divestment from harmful activities, especially from any fossil fuel related activity, and
- accelerate investment and finance for green sectors and the circular economy.

Regulators and policy makers must support the efforts of the financial industry. They should:

- take a coordinated, global approach and be more ambitious (and courageous!),
- internalize as far as possible external costs and risks to create a level playing field,
- look beyond financial risks in regulation, and consider longer term social, environmental and economic risks,
- create the regulatory space for innovation and future-proof solutions, and
- ensure the diversity of the financial system through greater proportionality in regulation, since the needs of local communities and the real economy can only be met with a diverse financial sector that understands how to work in partnership with clients and communities.

Conclusion

By further developing this paper we want to define our leadership in the climate finance space, and underline how it differs from others. We want to strengthen our members as they, and the rest of the financial industry, faces an existential climate challenge.

If we do not act we will not be able to achieve our core mission and ensure that our clients and communities are able to thrive. We need to make our businesses resilient to climate change and not fall behind conventional banks or regulatory requirements that are in the making. Taking action is also a matter of staying competitive, since the market will demand this from us. Finally, there will be new commercial opportunities on the horizon from which we can benefit if we prepare in time.

Annex:

- Overview of existing global, collaborative climate initiatives for financial institutions (Source: Strategic Framework for Paris Alignment, April 2021)

The GABV

The Global Alliance for Banking on Values (GABV) is a network of banking leaders from around the world committed to advancing positive change in the banking sector. Our collective goal is to change the banking system so that it is more transparent, supports economic, social and environmental sustainability, and is composed of a diverse range of banking institutions serving the real economy. As an Alliance of frontrunners in sustainable finance, we have a strong belief in the value of our banking model and our recent research backs that up, showing that lending to the real economy delivers better financial returns when compared with the largest banks in the world. We have demonstrated through our focus on the real economy, our strong capital positions, and our steady financial returns that the values-based banking model provides a viable and needed alternative, adding strength to a diverse financial ecosystem.