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World's top banks show minimal clear commitments to shift financing away from fossil fuels, finds revelational study

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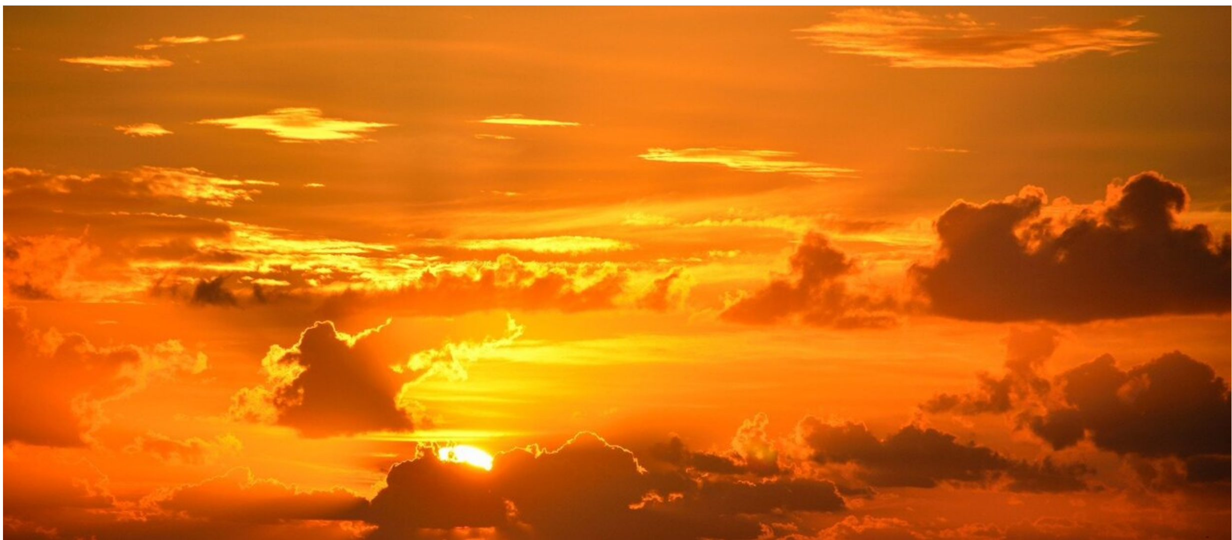

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Big banking is saying little on how they will combat climate change through their financing, shows a new study which finds minimal, clear commitments to aid financing away from fossil fuels.

The top 10 banks—ranked as the largest funders of fossil fuel organizations—are talking more about climate change in general. However, in an analysis of annual reports, these banks were found to be

vague when it comes to initiatives to counter it.

In 2020 alone, $425.92bn was spent financing fossil fuels by this group—which includes banks from the US, such as JP Morgan Chase; the UK, Barclays; Canada, Toronto Dominion Bank; and Japan, Mitsubishi UFJ Financial Group.

Published today in the peer-reviewed journal *Climate Policy*, the findings of this new study include a plea from the experts to change the way banks support the fossil fuel industry. The team, based at the University of Gothenburg, also set a three-point list of recommendations.

"If one should 'follow the money' to find the culprits of a crime, what does that say for the significant amounts of money that the financial industry puts into fossil fuels," questions author Associate Professor Åsa Löfgren, from Gothenburg's Department of Economics.

"In the annual reviews that we studied, the climate change-related efforts of these huge businesses tend to relate to the direct effect of their work, such as reducing their buildings' use of electricity. There is little or no recognition of the indirect, but significant, effect of their clients' emissions.

"This absence of commitments may reflect an absence of critical reflection on their responsibility for financing climate change."

Associate Professor Löfgren, an expert in climate economics, adds: "What is needed is effective policies targeting the banking industry. They need to explicitly consider how to measure and reduce climate impacts not only from the direct operations but also in relation to banks' financing or client lending activities."

The academic team—which also includes co-author Jasmine Elliott, a

Ph.D. student from Gothenburg's Department of Philosophy, Linguistics and Theory of Science—expects "public pressure" to likely affect the banks' priorities and strategies in relation to climate change.

The team's recommendations for policy changes include:

- Climate-related financial disclosures should target banks' climate impact in relation to their client financing; in a clear and contextualized manner, so it is accountable.
- Effective policies to explicitly consider how banks should measure and reduce climate impacts in a way that is comparable—aligned with the Paris Agreement—and in relation to credit financing operations to clients.
- Legislation mandating human rights and environmental due diligence implemented with explicit considerations in relation to climate change.

Their paper analyses the annual reports from 2015 to 2019 for the world's 10 largest banks, based on their level of financing fossil fuels following from the 2020 *Banking on Climate Change* report.The biggest financier is JP Morgan Chase with $64.93bn, followed by Citigroup with $52.41bn. Scotiabank round-up the top 10 with $26.04bn spent.

The experts used an auto-coded word search to identify and highlight climate change-related quotes and then reviewed each section in detail, manually identifying areas for further analysis.

The emerging pattern is an increasing trend for annual reports to focus on elements of climate change, varying from bank to bank. Crucially, however, despite the increase the study finds "little discussion of how climate change might affect the bank in relation to its societal impact".

"In this decade of action for the UN Sustainable Development Goals

(with a focus on SDG 13—climate action), the financial sector is included among those to recognize the ways in which it has impact and how they can best contribute," Jasmine Elliott says.

"Climate risks seem to be broadly identified as a perceived credit risk in relation to clients defaulting on loans or as a physical risk impacting the bank's own operations—such as extreme weather risks to properties and investments, for example.

"There is also a recognition that potential climate change regulations and guidance may affect their operations.

"Our observations align with recent surveys and analysis of climate disclosure reports on the lack of sufficient detail in corporate climate-related financial risk disclosures in general."

Elliott adds: "Banks seem to see opportunities—like new green products and services—as the primary way of engaging with clients in relation to climate change. While this may be a relevant step in promoting sustainability, it still does not address the causal, negative contribution they have had and continue to have on the climate via their main financing activities."

Limitations of the study include it being a review of annual reports, and not specific 'sustainability and environmental, social, and governance initiative' documents. However, the authors argue an annual report is "one of the best ways to get an overall snapshot of a company's priorities and what the company wants to portray to the public".

Funded by the Mistra Carbon Exit research program and the UGOT Centre for Collective Action Research, this qualitative research is the first in a series of upcoming work by the team; this includes developing an AI natural language processing model to further understand the

banking industry's discussion of climate change in relation to various regulations and trends.

More information: Jasmine Elliott et al, If money talks, what is the banking industry saying about climate change?, *Climate Policy* (2022). DOI: 10.1080/14693062.2022.2036090

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