

**Eric Usher**

*Head, UNEP FI*

## **Is responsible banking an oxymoron?**

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*The UN's work with the banking sector since 1992 to integrate sustainability and climate considerations into financial practice.*

Canadian Club of Rome, Zoom 2021-05-05

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# Why is the US acting now ?



<https://www.youtube.com/watch?v=qvnMoNrcSLk>

PRESS RELEASES • [Greenpeace Nature Energy](#) • [#Climate](#)

# Leaders' meagre steps on climate are walking us to catastrophe

Greenpeace International • 22 April 2021 | 0 Comments



Amsterdam, Netherlands – Despite a raft of announcements, the Leaders Summit on Climate has left us stranded in a world of rising tides, melting glaciers, and deforestation. Even with new national climate commitments from the United States, United Kingdom, China, Canada, and Japan, world governments are yet to outline a clear and solid pathway to the 1.5 oC commitment under the legally binding Paris.

**Jennifer Morgan, Executive Director, Greenpeace International:**

“Governments are shuffling about with the climate crisis, when they are capable but unwilling to run towards the real solutions to prevent climate breakdown and align with 1.5 oC. Leaders appear to be adamant about failing us, themselves and the planet, by not upholding the legally binding Paris Agreement. Governments have left us waiting for action long enough and cannot leave it to COP26. There has to be an urgent just and green transition from fossil fuels, while nature – as our biggest defence against the climate crisis – must be protected and restored.”

“The Net-Zero Banking Alliance is a very weak voluntary initiative. Among the flaws, targets don't need to be aligned with 1.5C or cover off-balance sheet activities such as underwriting. Regulators have to step in to transform the banking sector from leading on greenwashing to leading on climate.”



## Fossil fuels

**Damian Carrington**  
Environment editor

Twitter: @dpcarrington

Wed 24 Mar 2021 05:00 GMT



1,801

# Big banks' trillion-dollar finance for fossil fuels 'shocking', says report

Coal, oil and gas firms have received \$3.8tn in finance since the Paris climate deal in 2015

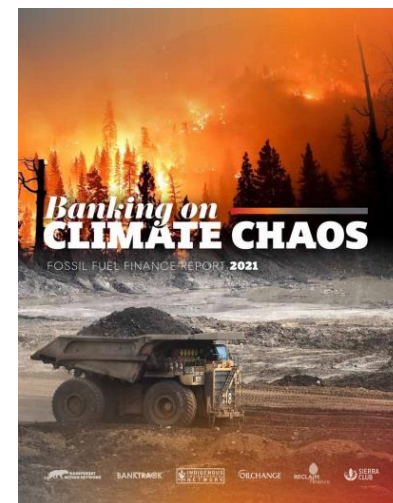


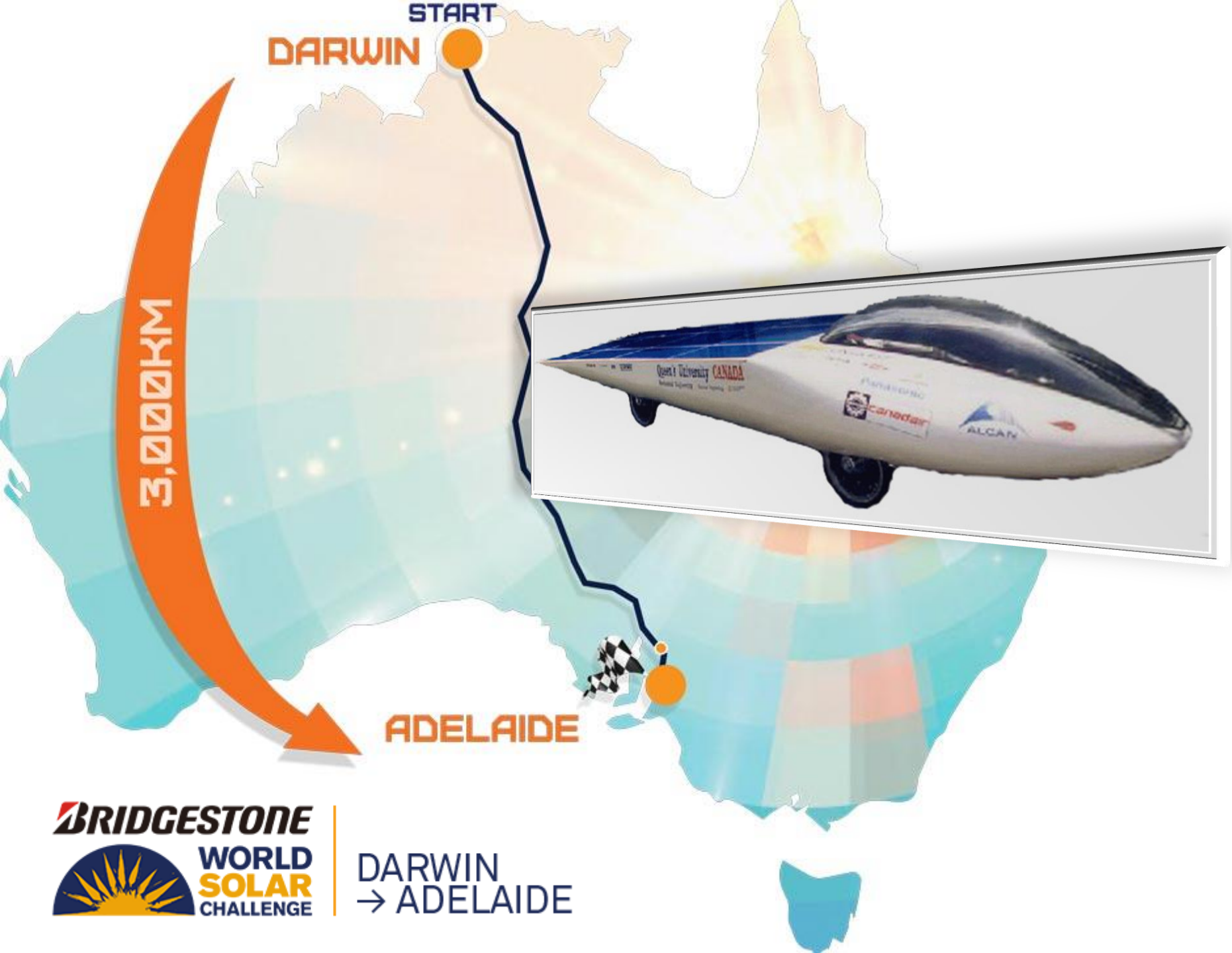
▲ A coal-fired power station in China. Despite the pandemic cutting energy use, overall funding of fossil fuel firms remains on an upward trend. Photograph: Wang Meng/Getty Images/iStockphoto

The world's biggest 60 banks have provided \$3.8tn of financing for fossil fuel companies since the Paris climate deal in 2015, according to a report by a coalition of NGOs.

Despite the Covid-19 pandemic cutting energy use, overall funding remains on an upward trend and the finance provided in 2020 was higher than in 2016 or 2017, a fact [the report](#)'s authors and others described as "shocking".

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United Nations Environment Programme Finance Initiative

## Working with Banks, Insurers, and Investors to create a Sustainable Finance Sector

UNEP FINANCE INITIATIVE  
**#GRT2020**  
VIRTUAL EVENT



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on Financing a Resilient Future?**

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43 banks launch Net-Zero  
Banking Alliance as key part of  
consolidated Glasgow COP  
climate action

Net-Zero Asset Owner Alliance  
more than triples membership  
to 37 since 2019 launch

12 leading organisations  
appointed to Civil Society  
Advisory Body of the Principles  
for Responsible Banking

How to Finance a Sustainable  
Ocean Recovery – Seminal New  
Guidance Published

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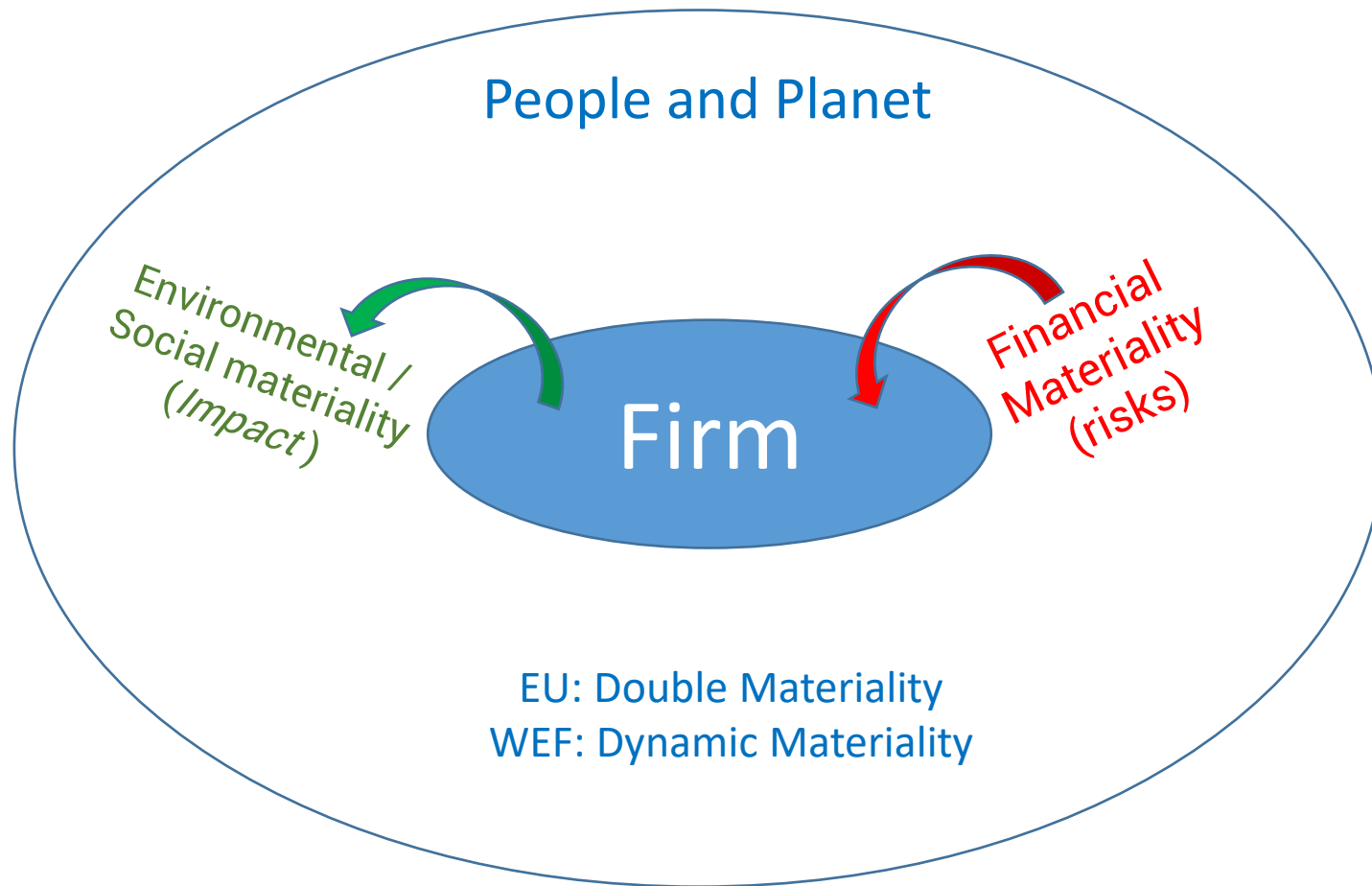


# Financial sector at the service of people and planet



1. Sustainability **Risks** identification and **Disclosures**
2. Sustainability **Impact** identification and management
3. **Aligning** portfolio/institution with societal needs

# Key Concepts: Materiality





# Key Concepts: Time Horizons

Ontario Teachers Pension Plan infrastructure investment 30yrs+

Bank of Montreal Corporate  
Finance to Bombardier, 3-5 yrs

RBC underwriting of Saudi Aramco IPO, days to weeks

High frequency trading, nano-seconds

Eric's bank account or home mortgage 35yrs+

## Mark Carney's Tragedy of Horizon solved?

2015, Paris Agreement '*Stabilise climate by end of century ...*

2019, UN Climate Summit focused efforts on Net Zero by 2050

2020, Boris Johnson phasing out IC cars by 2035

2021, Trudeau announces 40-45% emissions reduction by 2030

## Short history of responsible banking

- i. 16<sup>th</sup> Century Italy – Catholic church set ethical guidelines for banking
- ii. 18<sup>th</sup> Century – Credit unions / Cooperative banks (Desjardins Group)
- iii. 1980s US Superfund law on lender liability
  - banks est. environmental risk mgt systems
- iv. 1992 UNEP Finance Initiative established



## Short history of responsible banking (cont.)

- v. 2005 Freshfields report - investors **could** consider environmental, social and governance issues in investment decisions
- vi. 2006 Principles for Responsible Investment launched
  - Today 4000 signatories, 80% of institutional investors
- vii. 2007/8 Global Financial Crisis – banks lose social trust
- viii. 2015 Sustainable Development Goals / Paris Climate Agreement
  - Mark Carney Taskforce on Climate Related Financial Disclosures
  - Green financing takes off
- ix. 2019 Principles for Responsible Banking / UN Net Zero Focus
- x. 2021 Net Zero Banking Alliance

Risk

Impact

Align



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# PRINCIPLES FOR RESPONSIBLE BANKING

SHAPING OUR FUTURE

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# Principles for Responsible Banking



António Guterres (UN Secretary-General) at the Official Signing and Global Launch of the Principles for Responsible Banking



Official Signing and Global Launch of the Principles for Responsible Banking



# Principles for Responsible Banking



**Principle 1, Alignment:** We will **align our business** strategy to be consistent with and contribute to individuals' needs and society's goals, as expressed in the Sustainable Development Goals, the Paris Climate Agreement and relevant national and regional frameworks.



# Principles for Responsible Banking

## Signatories

**223 Signatories | 68 Countries**

**USD 57 trillion in assets**

**Approx. 40% of the global banking industry**

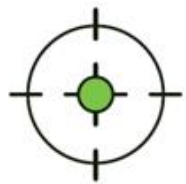
### Top 10 banks across regions

Asia-Pacific	North America	Europe	Latin America	Middle East & Africa
ICBC	JP Morgan Chase	HSBC*	Itaú Unibanco	Qatar National Bank
China Construction bank	Bank of America	BNP Paribas	Banco do Brasil	First Abu Dhabi
Agricultural Bank of China	<b>Citigroup</b>	Crédit Agricole	Banco Bradesco	Emirates NBD Bank
Bank of China	Wells Fargo	<b>Santander</b>	Caixa Econômica Federal*	<b>Standard Bank</b>
<b>Mitsubishi UFJ FG</b>	Royal Bank of Canada*	Société Générale	<b>Santander Brasil</b>	Bank Leumi le-Israel
Japan Post Bank	Toronto Dominion Bank*	Barclays	BBVA	National Commercial Bank
<b>Sumitomo Mitsui FG</b>	Goldman Sachs	Groupe BPCE	Grupo Aval	Bank Hapoalim
<b>Mizuho FG</b>	Morgan Stanley	Deutsche Bank	<b>Banorte</b>	<b>First Rand</b>
Postal Savings Bank of China	Bank of Nova Scotia*	Lloyds	<b>Santander Mexico</b>	Abu Dhabi Commercial
Bank of Communications	<b>Bank of Montreal</b>	Intesa Sanpaolo	Citibanamex	Kuwait Finance House
<b>40% are PRB</b>	<b>20% are PRB</b>	<b>90% are PRB</b>	<b>70% are PRB</b>	<b>30% are PRB</b>

# Principles for Responsible Banking

## *Implementation*

**Three key steps** to effective implementation of the Principles, and to enabling bank to continuously improve its impact and contribution to society:



Step 1:  
Impact Analysis



Step 2:  
Target Setting & Implementation



Step 3:  
Accountability

# Step 1: Impact analysis

## Impact analysis should:

Cover core business areas

- Take into account:
  - **Scale of bank's activities** regarding specific industries, technologies and geographies
  - **Context**, i.e. most relevant priorities in countries/regions in which bank operates
  - **Scale and intensity/salience** of impacts identified
- Based on this analysis, identify strategic business opportunities to increase positive and decrease negative impacts

## Impact Analysis Guidance and Tools

- [Guidance on Impact Analysis](#) - detailed explanations how to undertake impact analysis
- [Portfolio Impact Analysis Tool](#) guides banks through analysis of their portfolios.



# Step 2: Target setting

## **Set and publish ambitious targets:**

Minimum of two targets addressing bank's most significant positive and negative impacts.

- Targets drive alignment with appropriate Sustainable Development Goals, the goals of the Paris Agreement, relevant national frameworks
- Specific, measurable, achievable, relevant and time-bound (SMART)

## **Implement business strategy to meet targets:**

- Set milestones, define and implement actions to meet the targets
- Measure and monitor progress and put in place governance and oversight structure

## **Target Setting Guidance**

- [Guidance on Gender Equality Target Setting](#) for embedding gender-sensitive practices and processes across banking organizations.
- Forthcoming: Biodiversity Target Setting (May 2021); Financial Inclusion Target Setting (May 2021); Standards for Net Zero Portfolios (April 2021); Resource Efficiency Target Setting<sub>22</sub> (Work to start in April 2021)

# Step 3: Accountability

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## **Transparency and Reporting:**

- Report on PRB implementation, incl. targets set and progress made
- No need to produce an additional report for the Principles for Responsible Banking. Include the required information in existing public reporting

## **Self-Assessment and Assurance:**

- Provide self-assessment of progress
- Undergo third party assurance of self-assessment



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# PRINCIPLES FOR RESPONSIBLE BANKING

SHAPING OUR FUTURE

*Example Target Setting Initiative*

**Net Zero Banking Alliance**



# Principles for Responsible Banking

## *Example Target Setting Initiative*



## Net-Zero Banking Alliance

**21 April 2021** Launched by 43 founding banks from 23 countries, US\$28.5 trillion in assets



# Net-Zero Banking Alliance

[Commitment Statement](#) signed by bank's CEO.

Signatories commit to:

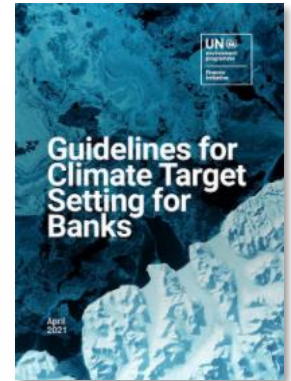
- **Transition** operational and attributable GHG emissions to align with pathways to net-zero by 2050 or sooner.
- **Within 18 months**, set 2030 target for sectors of most impact, ie. most GHG-intensive sectors, with further sectors covered within 36 months.
- **Annually publish** emissions in line with best practice and within a year of setting targets, disclose progress against board-level reviewed transition strategy.
- **Take a robust approach** to the role of offsets in transition plans.



# Net-Zero Banking Alliance

Commitment underpinned by [Guidelines for Climate Target Setting for Banks](#) that outline four principles for target-setting:

1. Banks shall set and disclose [long-term and intermediate targets](#) to support meeting the temperature goals of the Paris Agreement.
2. Banks shall establish an [emissions baseline](#) and annually measure and report emissions profile of their lending portfolios and investment activities.
3. Banks shall use widely accepted [science-based scenarios](#) to set both long-term and intermediate targets aligned with the temperature goals of Paris Agreement.
4. Banks shall [regularly review targets](#) to ensure consistency with climate science.





# Net-Zero Banking Alliance

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## NGO Concerns

### 1. NZBA silent on phase-out of fossil fuels

**Response:** NZBA banks must set targets for coal, oil, gas and electricity sectors in line with 1.5C scenario that does not rely heavily on negative emissions technologies.

*- Once targets set, can't finance fossil fuels inconsistent with this trajectory.*

### 2. NZBA banks take too long to set targets and deliver results

**Response:** Banks starting out on this journey require 12-18 months to set targets.

*- Decarbonising some portfolios (e.g., home mortgages) will be slow.*

### 3. NZBA does not require banks to set targets on underwriting activities

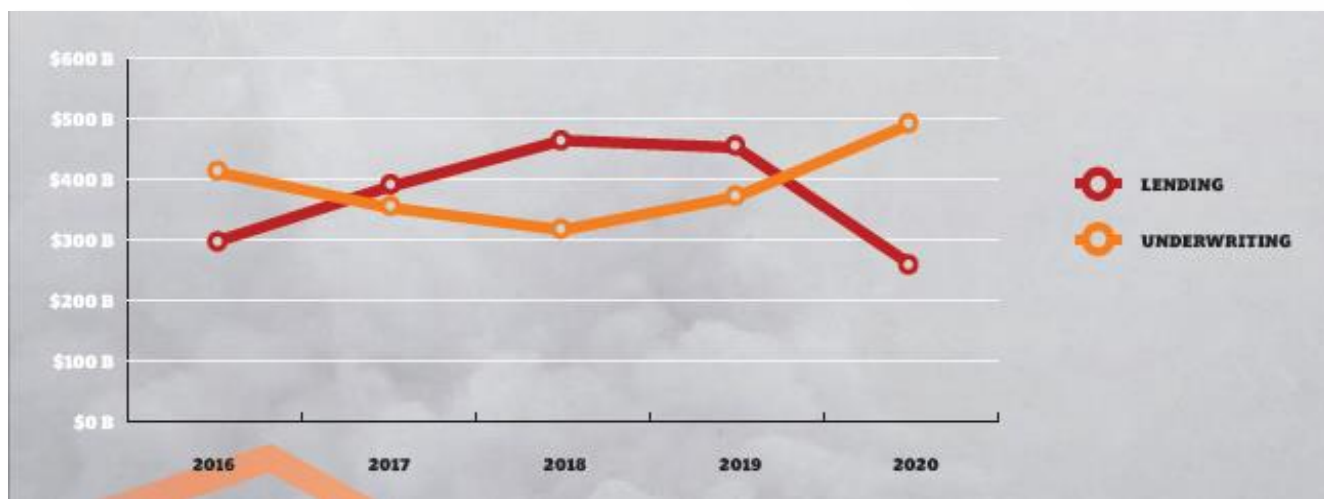
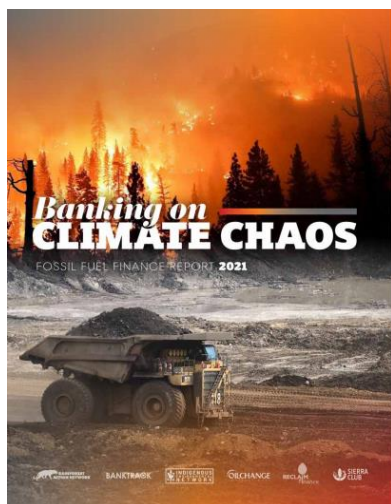
**Response:** Underwriting will be considered in the next review of the Guidelines.

*- Currently no accepted method for carbon accounting of capital markets underwriting*

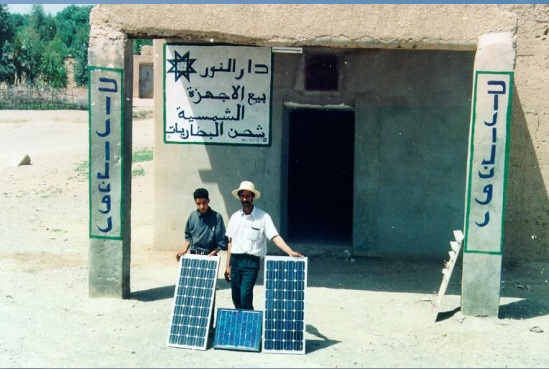
# Final Considerations

## Is responsible banking an oxymoron ???

1. Banks are profit seeking but need to have purpose
2. Properly regulated, banks play central economic role
3. Relationship between public and private sector evolving
4. Voluntary actions important, but will often result in regulatory action rather than in lieu of it.







Thank You !

NOOR SHAMS