

# Don't bank on the finance sector to solve the climate crisis

This briefing sets out recommendations for policy-makers to ensure financing activities are truly aligned with the Paris Agreement on Climate Change

## The financial sector plays a critical role in reaching net-zero

This November, the UK will host the COP26 climate change conference in Glasgow. The financial sector is central to the UK Government's plans to drive up international ambition and meet its climate commitments.

ShareAction welcomes the recent increase in financial sector-led voluntary action. This demonstrates that the finance sector is recognising its role in getting us to net-zero. Over the last 12 months, different parts of the global financial services landscape have been organising to announce a range of important voluntary initiatives. These include the Net Zero Asset Owners Alliance, the Net Zero Asset Managers Initiative and the Net Zero Banking Alliance. These form part of the Glasgow Financial Alliance for Net-Zero (GFANZ) umbrella.

## However, voluntary commitments are not always sufficient

With these voluntary commitments comes a responsibility to set high standards. Where such commitments fail to do so, there is a risk of greenwash.

For example, the Net-Zero Banking Alliance (NZBA), despite being a welcome step forward, has not yet set sufficiently high standards<sup>1</sup>. The NZBA has set less rigorous standards for banks than the Net Zero Asset Owner Alliance has set for insurers and pension schemes.

In July, ShareAction and [115 investors representing \\$4.2tn wrote to 63 global banks](#) to call on them to strengthen their climate and biodiversity strategies in the run-up to Kunming Conference (CBD COP15) and COP26 next year. The asks in the letter go beyond the pledges made by banks through voluntary commitments.

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<sup>1</sup> The NZBA is an industry-led, UN-convened coalition of over 45 banks from 24 countries with over US\$29 trillion in assets <https://www.unepfi.org/net-zero-banking/>

Policy-makers must not assume that the financial sector will solve the problem of climate change without firm underpinning laws and regulatory requirements.

## Law and public policy have a vital role in boosting action on climate

Policy-makers must create a supportive policy framework for banks and other financial actors, and ensure laws and regulations are appropriately enforced.

Where banks, asset managers, pension schemes or insurance companies make additional voluntary commitments, it is essential these are credible, robust and that the Government is conscious of the dangers of greenwash.

To enable it to meet its climate goals, the Government recently announced it would:

*“Rally the financial services sector to commit to net zero through membership of the Glasgow Financial Alliance for Net Zero. The government will also work closely with the regulators to encourage and support firms to publish transition plans and will provide further details before the end of 2021<sup>2</sup>.”*

But it is not enough for policy-makers to be ‘encouraging’ and ‘rallying’ the financial services sector to address climate change.

### We are calling on policy-makers to:

- Be aware of the details of the financial sector’s pledges and work in the climate space – these are central to the UK hitting its climate goals.
- Equip themselves to understand and, where necessary, challenge what the financial sector is doing to combat climate change. If you are on a relevant select committee, press executives from banks, insurers and asset managers on the adequacy of their commitments. What targets have they set? How will they meet them? What assumptions and models are they using?
- Hold the Government to account on how it intends to meet its climate goals and to outline to Parliament and citizens how the financial sector fits into its climate strategy.

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2 <https://www.gov.uk/government/collections/mansion-house-2021>

- Recognise voluntary commitments as a companion to but not a substitute for robust mandatory net-zero requirements in the financial sector. Transition plans from financial entities must be scrutinised carefully by regulators.
- Ensure regulators put sustainability and net-zero at the heart of their strategic objectives and develop the internal capabilities needed to see this through.

You may wish to sign up to the APPG on Sustainable Finance to explore these issues further.  
<https://appgsusfin.org/>

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ShareAction is a registered charity working globally to define the highest standards for responsible investment and to drive change until these standards are adopted worldwide. Our vision is a world where the financial system serves our planet and its people.