

Shifting the financial system: accelerating sustainable finance at banks

Insights for banks and banking
professionals leading climate action

September 2023



About CSLN

The Climate Safe Lending Network (CSLN) is an international multi-stakeholder collaborative dedicated to accelerating the decarbonisation of the banking sector to secure a climate safe world. CSLN works to create collaborative spaces that continuously and provocatively nudge the debate towards more progressive perspectives on climate safe lending practices based on scientific insight and genuine consideration of social equity.

About FIL

The Finance Innovation Lab (FIL) builds power to transform the financial system for people and the planet. We cultivate a community of systems changemakers and work on initiatives that impact mental models and power dynamics in finance for deep, lasting change. Our work focuses on growing purpose-driven finance, transforming mainstream finance, influencing law, regulation and policy, and building our community.

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Contents

Executive summary	1	4. People	12
1. Introduction	2	Internal barriers and enablers.....	13
Economic and political backdrop	2	<i>Addressing people and change at banks – recommendations</i>	14
<i>Instability in the financial system</i>	2	5. Conclusion	15
<i>Inflation and interest rates</i>	2	Appendix	16
A backlash against ESG (environmental, social and governance) and greenwashing.....	3	The Fellowship.....	16
Structure of the report.....	4	Insights survey and data collection	16
2. Ambition gap	5	Example project outputs from the Fellowship	17
Three horizons model.....	5	Banks and decarbonisation primer	18
Profit motive and incentives.....	6	Types of banks relevant to the transition	19
Banks, political and reputational risks.....	7	Glossary and abbreviations	20
Uncertainty and fear.....	7	Bibliography	20
Greenwashing.....	7		
<i>Addressing the ambition gap at banks – recommendations</i>	8		
3. Culture	9		
Typical cultural traits.....	9		
Fiduciary duty and banks.....	10		
Corporate strategy and performance	10		
Banking culture and challenging the status quo.....	10		
<i>Addressing culture at banks – recommendations</i>	11		

Executive summary

This report examines the current status of sustainable finance in the banking sector and provides recommendations to accelerate action. It is based on insights from banking insiders.

As the global climate crisis intensifies, the financial sector, and banks in particular, have a critical role to play in fostering sustainability and providing capital to new low-carbon solutions. This report analyses the challenges, opportunities and best practices that banks can adopt to effectively address climate change, while aligning with global goals such as the [Paris Agreement](#) temperature targets.

It is important that strategies concerning reducing carbon emissions, referred to as 'climate' action in this report, are combined with social or just transition principles and broader ecological breakdown.

Key findings

- 1** The economic and political context for banks acting on climate has become more complex and continues to change rapidly. Due to the emerging polycrisis and growing political polarisation, the pace of change is not expected to slow down.
- 2** There remains an ambition gap at banks. None of the bankers surveyed for this report thought the industry was doing enough to keep global warming within 1.5 degrees; 90% did not think their own institution was doing enough.
- 3** An ambitious, consistent and credible tone from the top is a key success factor to enable low-carbon transitions at banks.
- 4** Deeper cultural transformation inside banks is now required to further accelerate progress on sustainable finance. Progress has been made on collecting relevant environmental data from customers and developing new reporting standards.
- 5** Working on sustainable finance inside banks can be overwhelming, with many competing demands and high expectations. Supporting people and teams with appropriate investment, resources and people management tools for successful internal transformation is essential.
- 6** Often the teams who are perceived as barriers to climate action at banks are internal- rather than external-facing. Change management tools can support internal transformation at banks.
- 7** The interconnected nature of climate change requires collaborative efforts among banks, governments, non-profit organisations, communities and the private sector. Banks must support ambitious policy changes which accelerate the transition of their facilitation, lending and investing portfolios to the low-carbon economy.
- 8** More detailed recommendations and tools are available at the end of each section of the report, and a sample climate risk questionnaire and guide to integration across divisions are provided in the appendix.

1. Introduction

This insights report is designed for a banking audience and the wider range of stakeholders who are interested in accelerating the low-carbon transition at banks.

The report follows an [inaugural report](#) published in 2022. Both accounts have been written based on insights from people working inside banks, gleaned mostly from the 2023 Climate Safe Lending Fellowship and the Climate Safe Learning Lab banking community, joint initiatives of the Finance Innovation Lab and the Climate Safe Lending Network. All responses are anonymous and no individuals or organisations are named in this report.

The inaugural report was written at a time when a number of banks' sustainable finance commitments were relatively new. This second report provides an update on the state of sustainable finance today, gleaned from a survey of insiders. It also builds on the challenges communicated in our previous report, by sharing more applied recommendations of how to further accelerate banks' climate action after setting initial commitments.

Economic and political backdrop

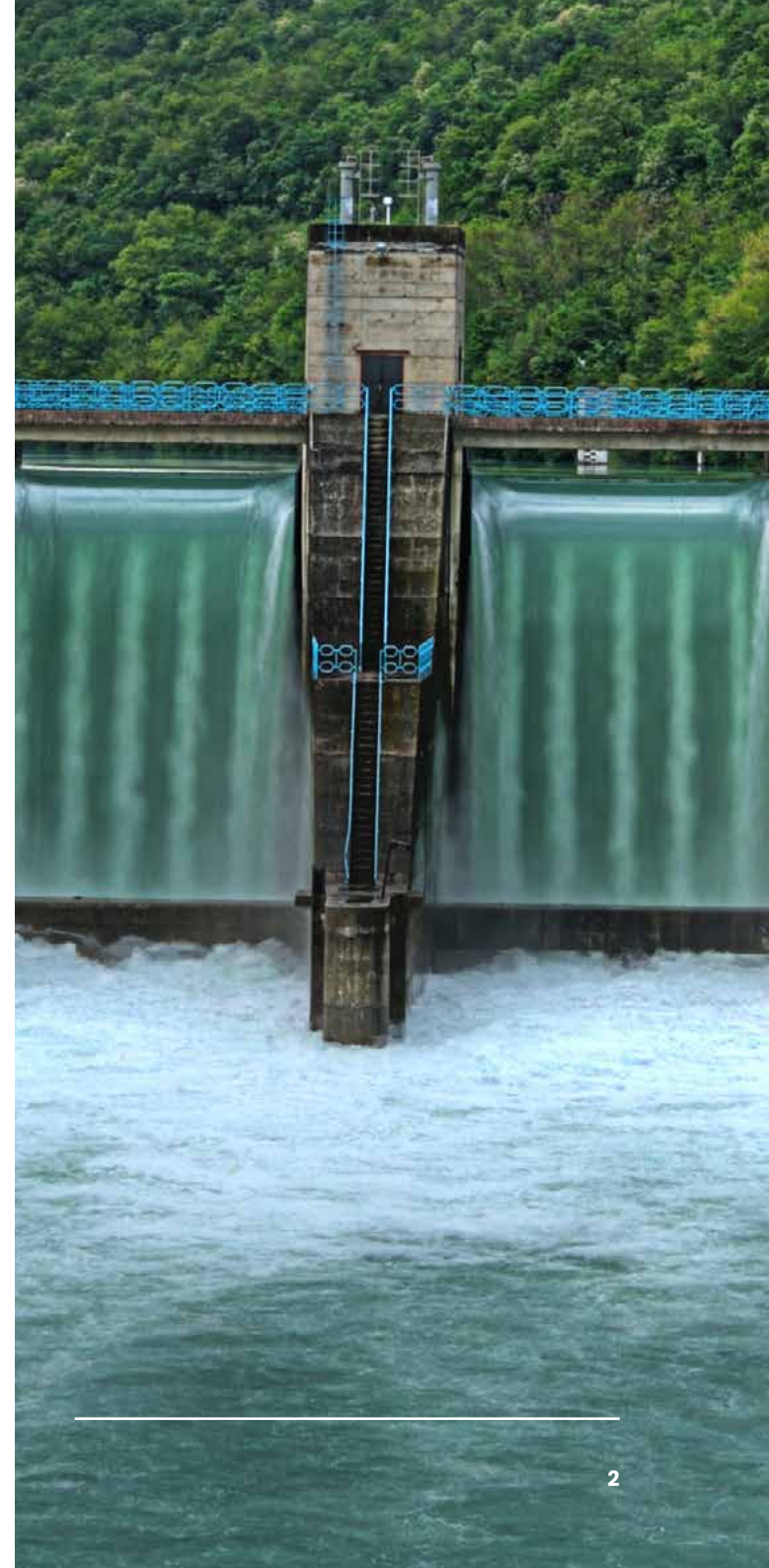
Instability in the financial system

Banks are often considered a bellwether for the economic health of the underlying customers in the real economy whom they serve. They also reflect the governance frameworks they operate within.

Recently, there have been well documented bank failures – including of Credit Suisse and Silicon Valley Bank (SVB) – with diverse origins. Financial supervisors, central banks and regulators have stepped in to support some banks. Liquidity risk has become a bigger concern for banks, particularly after a long period of low interest rates. At the institution's customer level, many individuals and businesses are facing increased financial stress due to rising inflation and interest rates.

Inflation and interest rates

Since last year's report, there have been significant challenges for financial institutions and their



customers to navigate: for example, adapting operations in response to geopolitical events such as the Russia/Ukraine conflict. The consequential increase in commodity prices, resulting in higher inflation and interest rates in many economies, has meant a variety of impacts and actions for banks.

Many Global Systemically Important Banks (GSIBs) have benefited financially in 2023 from the changing macroeconomic context. For example, the biggest banks in the **United States reported record profits in 2023**.

At the bank customer level, multinational energy companies, active participants in the legacy high-carbon economy, have benefited financially from increasing commodity prices. For individual retail customers at banks, on the other hand, there are increased costs. Rising interest rates have increased payments for individual customers who have debt such as mortgages and overdrafts. This has led to an increase in inequality between, for example, those who work in large urban centres for the financial services and the energy industries, and those who do not.

According to the **Institute for Fiscal Studies**, in 2023 pay growth in London for professionals in the energy, financial and business services sectors was more than 7%, double that of other industries and parts of the UK.

The failure of neoliberal trickle-down economics is evident in decades of data and research studies. According to the **2022 World Inequality Report**, the richest 10% of the world population own 76% of

all wealth. This translates into significant political and societal development and consequences.

A backlash against ESG (environmental, social and governance) and greenwashing

The world is on the brink of a polycrisis, which banks will have to navigate. Poly means 'many' or 'multiple', with a crisis occurring as the societal and ecological challenges the world faces intersect with and influence one another – often leading to an acceleration in the polycrisis itself. Examples of concurrent and intersecting challenges are climate change, economic uncertainty and political unrest.

In some countries the polycrisis and social media have contributed to an increased polarisation in domestic politics, including boosting authoritarian leaders and parties. In turn, it has impacted businesses, including banks. Anti-ESG rhetoric has risen significantly in the past 12 months, particularly in the US and UK. One **CEO** of a major US-based financial institution will no longer use the ESG acronym as he claims it has been weaponised in political debates.

Banks have a key role to play by enabling decarbonisation. They do this by providing sustainable finance and facilitation services to companies, projects and individuals in the real economy. Banks have sustainable finance

commitments and are creating low-carbon transition plans for their lending and investing portfolios. But are banks going far and fast enough on climate action?

Collective initiatives seeking progress on net zero by 2050, such as the Glasgow Financial Alliance for Net Zero (GFANZ), were communicated with fanfare at November 2021's COP26 in Glasgow. In the first **progress report** for the banking alliance of GFANZ, published in 2022, 90% of the 60 member banks had set immediate targets. While this represents progress there is still a lot more to do.

At the same time, potential litigation risk related to greenwashing is also increasing. Greenwashing and potential litigation was referenced in our inaugural report as a key issue banks face. It has since become more concrete, with several major financial institutions around the world having recently paid fines to regulators as they failed to uphold ESG policies in some investment strategies. See, for example, the case of **Deutsche Bank's DWS**.

Meanwhile, climate change is continuing to worsen and **carbon emissions were at a new high in 2023**. Bank financing for clean energy is accelerating, in particular solar power. However, much more finance for clean energy is required for the world to reach net zero emissions by 2050.

Over the coming decade, external challenges including demographic changes and the increasing use of artificial intelligence will continue to impact banks. However, this does not constitute an excuse



for banks to be passive about their significant role in the low-carbon transition. In fact, the opportunity for them to seize and lead the inevitable move to a new, innovative low-carbon economy is now greater and more crucial than ever.

Structure of the report

This introduction has outlined important context. The next three sections provide key insights that have emerged from the Fellowship and an indicative survey. Further information on these areas can be found in the appendix, along with more detail about different types of banks, within the 'Banks primer'.

The report is not a complete list of topics covered in the Fellowship. Instead, it focuses on three main and frequently identified areas of challenge faced by Fellows and members of the Climate Safe Learning Lab banking community and the insights are grouped accordingly in the sections that follow:

- Ambition gap
- Culture
- People

Each section includes recommended actions for individual bankers and institutions to take. These proposed actions are informed by broad-ranging insights drawn from closed and open collaboration on topics related to climate transition within major banks.

People who are actively working and supporting climate transition at a variety of banks around the world were consulted.

2. Ambition gap

While acknowledging the challenges of the external backdrop explained above, it is important to note that at banks there is still lots of room to be more ambitious on climate action.

100%

of insiders surveyed said the banking industry as a whole was not doing enough to keep global warming within 1.5 degrees.

This represents a significant ambition gap, as the actions undertaken by banks to keep the ambition of holding temperature rise within 1.5 degrees are currently deemed to be deficient by most stakeholders, including employees. The ambition gap is also borne out by data. For instance, bank financing for clean energy is accelerating, in particular for solar power, yet in terms of investment, for every one dollar of fossil fuel financing,

only **81 cents** are supplied to clean energy by banks; this ratio would **need to shift to 4:1 clean energy to fossil fuels** for the world to reach net zero emissions by 2050.

Three horizons model

The topic of framing climate-related business opportunities was explored as part of the Fellowship, through use of the **three horizons model**. Created by the International Futures Forum, this model is frequently used as a practical tool to plan business strategy.

~90%

of banking insiders surveyed said their own institution was not doing enough.



The model reveals three horizons for transformational change. Horizon 1 represents the current dominant 'business-as-usual' scenario: using energy as an example, the conventional system is dominated by oil and gas. Horizon 3 is a different future, one where desirable change has been achieved, and is the long-term successor to Horizon 1. For example, there is off-grid, decentralised clean energy such as tidal energy. Bridging these is Horizon 2, which represents interventions such as moving further into renewables or a new innovation that has become economically viable within the existing system. These disruptive innovations can either continue to prolong Horizon 1 or pave the way for Horizon 3.

“ It was helpful to hear that we will get pulled back by Horizon 1 as we try to make progress. I experience that a lot.”

Fellow, 2023

All three Horizons are visible at the same time to varying degrees. The model can be a helpful way to consider which of the Horizons banks are currently financing the most and what is needed to accelerate the transition towards a low-carbon economy.

Entrenchment in thinking in Horizon 1 was a commonly perceived barrier to action at banks,

along with a lack of visionary and innovative internal thinking in areas that chart a more ambitious pathway to Horizon 3. This section digs deeper into some of the underlying issues behind this, and highlights a potential rationale for the ambition gap. It also provides examples of actions that can be taken to bridge the gap.

Profit motive and incentives

When banks are motivated to do something, such as developing revenue-generating securitised mortgage products in the 2000s, they have an ability to act swiftly. This culture can encourage innovation and supply capital to new industries. However, it can have unintended consequences, as witnessed during and after the [global financial crisis in 2008/9](#). Billions of dollars were written off, lives negatively impacted and taxpayers were required to rescue the banking industry. A largely voluntary regulatory regime had not worked. After the financial crisis, policymakers introduced new mandatory legislation to protect depositors and address the risks in the financial system.

Unlike the reforms to banks after the financial crisis, much of the action on climate change at banks today is voluntary and led by the private sector, for instance by the Task Force on Climate-related Financial Disclosures (TCFD). However, increasingly, jurisdictions are moving to mandatory rules: for example, ESG reporting requirements in the European Union, Hong Kong and Singapore.

In the absence of strong regulatory pressure/frameworks, internal action is highly dependent on internal leadership, in particular the relative importance placed on the issue by senior leadership. Banks will often act quickly on voluntary tasks if revenue generation and profits are possible.

In the survey, we asked to what extent respondents agreed or disagreed with statements on how their bank perceived climate safe lending and finance.

70%

of respondents said their bank saw climate safe finance as an essential long-term strategic transition, whereas **under 50%** of the same respondents said their bank saw this as a short-term business opportunity.

Given these results, to accelerate sustainable finance, senior leaders inside banks can sell the benefits of focusing on long-term sustainable sources of growth. For example, you should invest in a bank that will perform well for years to come, so it needs to be one that's financing the future low-carbon transition.

On the other hand, many banks have a short-term perspective. They focus on the next one to five years of profitability, rather than looking longer-term. Government incentives, penalties and regulations can help shift the institutions in the short term and therefore also help banks focus on their long-term growth. Policy commitments are thus essential to shift banks from incremental to more substantive changes in the short and long term.

Banks, political and reputational risks

A variety of new regional and national sustainable finance regulations are in the process of being introduced. Application at a bank level often depends on the business-mix and geographical context where institutions operate.

Regulations will expand as the effects of climate change become increasingly obvious, impacting the real economy and citizens. Banks with climate ambitions can advocate for frameworks and policies that will support a smooth climate transition.

Is the ambition gap at banks caused by the fact they do not wish to expose themselves unnecessarily to potential reputational risks by being seen as advocating specific climate policies? Trying to avoid politics altogether in an increasingly polarised world that is facing a polycrisis is unlikely to be possible.

As argued by Joe Zammit-Lucia in *The New Political Capitalism: How Businesses and Societies can thrive in a deeply politicized world*, this means that corporations may never be able to be apolitical.

Climate campaigners are not going to stop highlighting institutions while there is a lack of progress on the 1.5 degree target. Also, markets themselves are politically constructed, with consumers and investors increasingly focused on corporations' political positions – environmental or societal.

60%

of the survey respondents said their institution was nervous about being seen to lead on climate safe lending and finance.

Uncertainty and fear

For banks that have agreed strategically to work on climate, there are still some barriers that can limit action. There isn't a universally agreed or precise view of how exactly the

climate transition will play out over time or how the economy will look in the future. Banks are used to estimating risk, but climate risks have a high degree of uncertainty. For example, if tipping points are met, the impacts of climate change become exponentially worse, but whether this will happen or not is inherently difficult to predict. It would make sense to have a more precautionary approach to estimating the interconnectedness of risks (though this is difficult within current risk frameworks).

Banks are also used to managing risk, but perhaps the perception that climate risk might be unmanageable adds to the nervousness to lead on this topic? There is also a possibility that banks then participate in **herd mentality or lemming behaviour**, identified by **Professor Kaye** as one cause of the global financial crisis. Banks tend to copy one another. This can lead to ambitions being capped at the same level of each bank's nearest peer. Is it possible some larger institutions are simply afraid of being too ambitious and/or of being an outlier? Where are the mainstream banking institutions that are willing to lead from the front?

Greenwashing

When considering this potential culture of fear around leading on ambitious climate action at banks, it is worth noting the impacts of **greenwashing**.

67%

of respondents said their institution was nervous about being perceived to be greenwashing, or being taken to court for doing so.

It is impossible to know without further research if the responses to these two questions are connected to one another and to fear, but it is a possibility.

To deal with the increasing challenges posed by the polycrisis, it will be necessary to change legacy business models and bring in new styles of leadership. Being seen to be apolitical will also be perceived as a decision in itself.

Institutions will have options to passively drift with the status quo, or actively provide the ambition required to address the complex issues the world faces. Based on the findings of the survey and beyond, it appears that employees support the latter.

Regulations also have a role in overcoming the greenwashing problem, for example by enhancing transparency, as revealed in a recent [Network for Greening the Financial System \(NGFS\)](#) report.

Addressing the ambition gap at banks – recommendations

Banks can consider the following to address the ambition gaps on climate action:

- **Banks must play a bolder role in driving policy change.**

They must create space to ask themselves bigger strategic questions about their longer-term role in society, integrating their conclusions into processes, as part of their organisational strategy. They can do this through transition plans. Any entity that has made a net-zero commitment should pivot its efforts into advocating in the strongest possible terms for the policy measures needed to achieve it, thus aligning its long-term ambitions with its duties to its customers, employees, investors and other stakeholders.

- **Boards should ask themselves serious questions about what is truly holding their institution back from being bold and courageous in the shorter-term on actions to keep within 1.5 degrees.**

For example, is it simply because climate action is framed internally as ‘more work’?

If so, what needs to happen internally to build appropriate capacity to make and act on decisions? This may include more investment and deeper integration across divisions.

- **Banks can frame climate transition in a positive way internally.**

Taking steps to present change as an opportunity rather than solely a cost and another thing added to a long to-do list.

- **Banks should ensure their sustainable finance products and external communications are credible and reliable to avoid greenwashing.**

For example, ensuring the basis of preparations and scope of disclosures are fully explained, comparable and simple to understand. Acknowledging the challenges and being humble may prove to be better than going quiet.

These actions also link to the issues explored in the next two sections.

3. Culture

The culture inside banks varies with the type, size and location of the institution. Successful banks typically have a high degree of professionalism and apply a strong duty of care to their customers. Banks also have a role in ensuring market integrity.

This means supporting trust in financial markets by being consistent in the way they process transactions, enacting fair and transparent pricing, and avoiding market abuse such as through insider trading.

Fellows identified some cultural traits at banks as being barriers to ambitious climate action: for example, siloed thinking internally that does not support cross-departmental collaboration. This kind of thinking might also manifest in avoiding pre-competitive collaboration with peers for fear of being seen to break antitrust rules. This is something the [UK competition watchdog has specifically addressed](#).

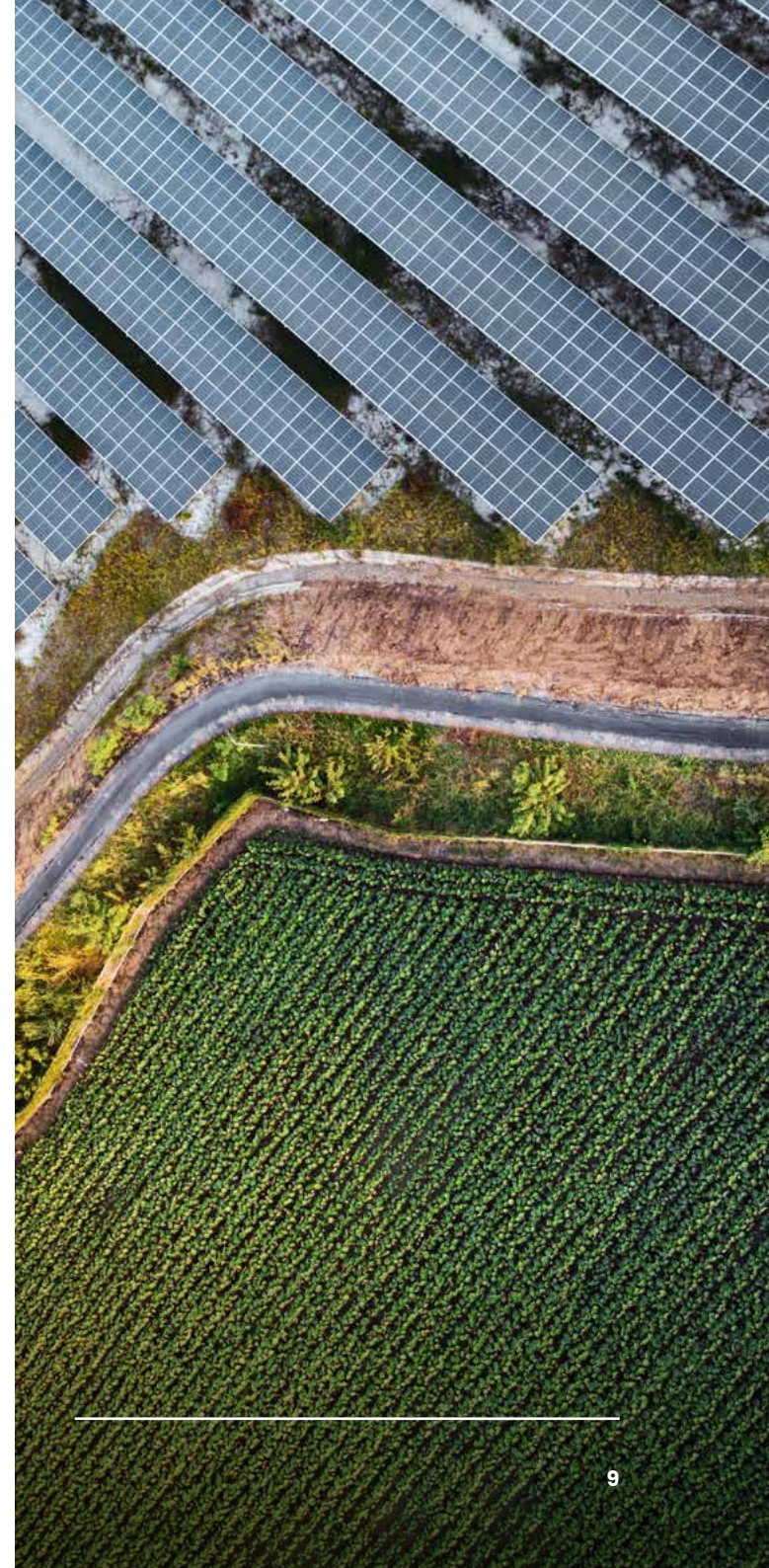
Some banks already have a culture of societal purpose and addressing climate change at their core. These include ethical and cooperative banks. However, for some, often larger, mainstream banks there are bigger cultural challenges to overcome before they can be ambitious on climate.

Typical cultural traits

Acknowledging the variety of cultures at banks, there are some commonly held traits across the industry, including:

- Being driven by financial performance (maximising profit and reducing costs)
- Abiding by rules and regulations
- Being formally structured and hierarchical
- Being focused on process efficiency
- Being keen on standardisation (i.e. international reporting frameworks)
- Being risk-aware

Many of these traits reflect banks' requirements to comply with regulations, ensure customer confidentiality and act in the best interest of their customers.



These cultural traits are deeply embedded and manifest in a variety of ways. Some can be helpful for sustainable finance (e.g. being risk-aware), others could be repositioned in support of it (e.g. being rule-abiding and process-focussed), while others might be hindering it and would have to be redesigned (e.g. hierarchical structures that don't always allow new ideas to filter upwards easily).

Within banks there are thousands of highly skilled and creative individuals, with diverse life and professional experience, all of which – given the right conditions – could be brought to bear on climate to real advantage.

Fiduciary duty and banks

Fiduciary duty and climate change are linked at the **Board level**. It is worth noting that banks are different to some investment advisors in this respect. For instance, many banks often do not have an explicit strict fiduciary duty to their customers (with some exceptions). Having said that, a **2021 NGFS report** about market dynamics stated material sustainability risks are part of an asset manager's fiduciary duty.

Different institutions and regulators will define what is material, or prioritised as important, in different ways. For example, the International Sustainability Standards Board (ISSB) issued new accounting rules in 2023. It has a single materiality approach, which is based on the impact of issues on financial cash flows. This contrasts with a more

ambitious double materiality approach that finds ESG issues are important to companies based on their impact externally. This is also called 'context based materiality' by **r3.0** in relation to actual **planetary boundaries**.

Financial institutions should incorporate sustainability and climate factors into their decision-making process using a double materiality approach. This should mean banks are able to make decisions on a range of factors, including the potential impacts of their financing on the environment and society.

Corporate strategy and performance

Beyond top-down governance, there is a strong performance culture in banks, largely driven by financial performance metrics: for instance, meeting quarterly profitability targets and achieving revenue growth. This is partly driven by investor profitability demands and the focus of **equity research analysts** on earnings. It leads to a short-term culture inside some banks that tends to ignore some of the longer-term impacts relating to climate change.

Is culture relevant to developing an ambitious climate transition at banks? A global group of 130 banks from 49 countries believes so. The United Nations **Principles for Responsible Banking** state that aligning banks' core strategy, decision-making, lending and investment with the Sustainable Development Goals and

international agreements such as the Paris Agreement is a goal of its framework. Cultural shifts underpin all these changes. So, when defining a bank's purpose, including the duty of care to customers and keeping within 1.5 degrees are found to be key ingredients.

Part of meeting this wider purpose at the individual bank level is having climate-related technical standards, measurement and targets, such as standards for greenhouse gas emissions and net zero. However, perhaps an even bigger part, which has not been routinely considered, is the required cultural transformation.

87%

of the survey respondents stated the required **low-carbon transformation** depends primarily on making cultural and behavioural changes within banking.

Banking culture and challenging the status quo

Accelerating sustainable finance at banks requires adopting new mindsets and approaches to working with colleagues, clients and stakeholders.

This might include conducting internal climate training for relationship managers, and utilising new risk questionnaires to assess and support progress on a customer's climate transition. New tasks will require banks to ask fresh and updated strategic questions about which business segments may not be viable due to the risk of **stranded assets** and the likelihood of there being an **inevitable policy response** to keep within 1.5 degrees.

But could the very process of financial intermediation at banks be hindering the climate transition? Do banks have a culture of caution that creates a barrier to climate transition?

The formal, hierarchical, process-driven organisational structures at some banks could be directly contributing to a reluctance to finance different climate-positive companies and projects. Cultural traits such as efficiency and standardisation can lead to resistance to change. This might impede new ideas from developing, even if they are revenue-generating, profitable and have wider societal benefits. It is possible that regulations, including **capital requirements at banks**, could have a similar effect. They favour companies in the legacy higher-carbon economy, due to their historical track record, which uses a more standard risk assessment with existing tools and methods; this contributes to delaying the climate transition.

In conclusion, supporting the cultural traits that enhance sustainable finance and creating an internal innovation mindset can support more climate action inside banks.

Addressing culture at banks – recommendations

Banks can consider the following actions to address the internal culture related to climate action:

- **Banks should create a culture of continuous improvement on climate action which must be deeply embedded inside institutions.**

This is only enabled with adequate resources and internal capacity building.

- **Banks should invest in change management tools and processes to help support the further maturing of climate transition across organisations.**

True business transformation moves beyond solely technical changes and creates buy-in throughout an organisation. A document to support integration across divisions is available in the appendix. Sustainable finance is not the sole responsibility of one department inside a bank, but an organisational-wide effort.

- **Banks should build upon risk assessments on aspects of climate, more fully encompassing climate into risk management processes and also identifying new customer opportunities.**

A sample climate risk questionnaire for clients is available in the appendix.

- **Banks can use personal stories as a powerful way to support positive cultural change inside a bank.**

People working in banks can step back from technicalities and instead share their personal experience of climate change and financing innovations with colleagues. For example, via townhalls and case studies.

4. People

Dedicated sustainable finance teams and professionals inside banks are often a relatively small proportion of the entire organisation. There is not yet a consistent common organisational structure inside banks for ESG-related work. Often tasks are completed on the side of someone's desk, in other words, in addition to their existing responsibilities.

In this year's Fellowship there was a balanced mix of people – approximately half in dedicated ESG roles and half in a variety of other departments. Continuing a theme from last year, some Fellows highlighted a feeling of overwhelm. This emerged from factors such as a lack of clarity about what was theirs to do, a lack of internal resources with high expectations and struggling to have influence across departments.

In a positive development, increasingly, larger banks have board-level Chief Sustainability Officers (CSO) with specific teams. Also, for purpose-driven ethical banks, climate action is often already embedded across the organisation. This follows from a similar theme from last year's Fellowship that referenced moving climate action from a dedicated role for a specific individual to creating a new perception that it is everyone's responsibility.

“ I feel like I'm not alone [in the Fellowship]. I always feel like a runner running. I want to help people, but how do I help myself? I'm like a racehorse with blinkers. It's not like that here.”

Fellow, 2023

As with any other walk of life, some people inside banks are naturally more cautious and resistant to change than others. Anecdotally, this could be even more true of experienced bankers who have built successful careers based on a record of solid professional experience and historical financial performance working with businesses in higher-carbon sectors.

Professionals who are used to traditional methods of financial modelling, including discounted cash flow analysis and portfolio theory, also may be reluctant to change away from a linear way of working that fits neatly into a spreadsheet or model. However, these models often do not take account of negative externalities such as income inequality or ecosystem destruction. A recent report from the [**Institute and Faculty of Actuaries \(IFoA\) with the University of Exeter**](#) has found that economic models underpinning climate scenario modelling in financial services do not always reflect the threat climate change poses to our planet and society.

In the face of the polycrisis, which includes unescapable demographic and technological changes, some roles and responsibilities inside banks will need to change.

Internal barriers and enablers

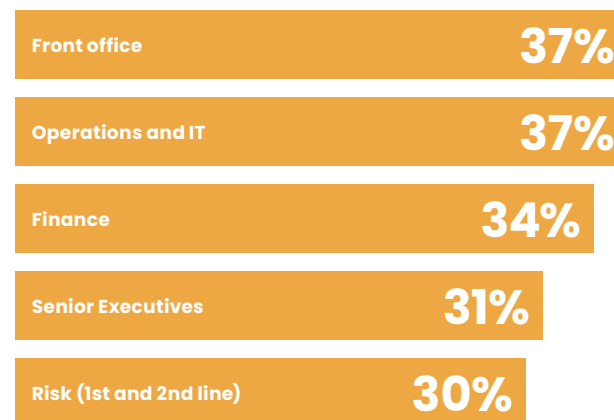
In the Insights survey respondents were asked to rank a range of different teams inside banks on a scale of 1 to 5, with 1 indicating a strong barrier to climate-aligned finance and 5 indicating a strong enabler.

The results suggest that most of the barriers to climate-aligned finance are internally-facing teams, whereas the enablers are mostly externally-facing teams. This might be where the ambition gap exists the most: between earnestly made external commitments to stakeholders outside banks and the practical reality of how changes are implemented internally (and in effect how business has to transform). It is worth noting that senior executives are identified in both lists, meaning sound climate leadership is essential for credible action.

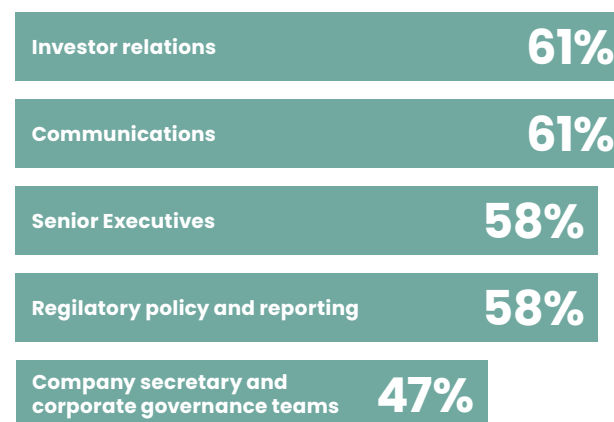
External consultants have a key role to play here too. Capacity and knowledge might not always be available inside firms today, hence the need to rely on outside expertise. It is important that external advice genuinely reflects the latest scientific information, rather than managing the status quo with incremental changes and avoiding giving difficult messages.

To support a variety of types of thinking and views at banks, including banks' own role in the economic system, it is crucial to ensure different external views are available internally on such topics.

The top five departments or areas respondents agreed are BARRIERS to climate-aligned finance are:



The top five departments or areas respondents agreed or strongly agreed were ENABLERS are:



Welcoming different perspectives, in a respectful manner, can bring new ideas and powerful stories into an organisation: for example, by engaging external stakeholders such as climate activists or indigenous people, who can bring in a deep knowledge of communities and nature.

Banks' openness to change and active listening to different perspectives are now central to making the critical changes required for a successful climate transition. Working on sustainable finance at banks can be exhausting and overwhelming for some people at a human level. This is because of having a heightened awareness of negative climate change impacts, frequently encountering potential organisational resistance, and having to deal with changing market expectations on ESG in an increasingly polarised world. Change management of any sort requires support for individuals, teams and entire organisations, such as offering collaborative networks and coaching to support change.

It is now critical to create venues to discuss an alternative vision to enable banks to break through structural and cultural barriers – enabling innovative thinking that challenges the status quo. Recognising that the existing system is failing – given the polycrisis and obvious environmental and societal frailties – demands a different way of thinking. Banks that entrench themselves in the existing system risk failure and becoming irrelevant over time. Financial institutions and bankers who embrace the changes required are more likely to thrive.

Addressing people and change at banks – recommendations

Banks can consider the following to address people-related changes in support of climate action:

- **Banks should commit to specific training and investment in sustainable finance skills for internally facing teams and relationship managers to enable the low-carbon economy.**

Including people management through transformational change.

- **Banks should build and enhance ESG teams to ensure climate action is integrated across their whole organisation.**

Avoiding sustainable finance in a separate silo.

- **Banks should create and encourage participation in internal and external collaborative networks and coaching to support change.**

E.g. ensuring there is dedicated climate training for new people managers.

- **Banks should incorporate change management tools into their climate transition**

Such as [Lean management](#) and [Bankers guide to transforming finance](#), which can help support a culture of innovation.

- **Banks should support diversity of thought and speaking up across the organisation.**

Including welcoming outside speakers with a variety of views about the future of the economic system and new visions/ideas. E.g. [doughnut economics](#), [degrowth](#), etc. Organisations and individuals can ask themselves questions about their roles and tasks, such as: ‘what am I actually doing?’ and ‘what economic system am I aiding?’



5. Conclusion

As the global community intensifies efforts to mitigate the impacts of climate change, the banking sector's proactive engagement is pivotal to success. By implementing the recommendations outlined in this report, banks can drive meaningful change, align with international climate objectives and secure their own resilience in an increasingly climate-conscious world. Through responsible lending, risk management and sustainable investments, banks have the potential to catalyse a greener and more prosperous future.

Appendix

The Fellowship

The **Climate Safe Lending Fellowship** is a development programme aimed at supporting and empowering banking professionals to bring about deeper shifts on climate and the just transition within their institutions. The Fellowship is open to bankers globally at different types and sizes of institution. It is offered by the Finance Innovation Lab (FIL), an organisation based in the UK, and the Climate Safe Lending Network (CSLN), based in the US.

The Fellowship programme is designed to provide individuals with the skills, knowledge and support they need to drive climate action in the finance sector. It is a comprehensive programme of support that offers Fellows practical systems-change frameworks, peer learning, a community and support to implement change in their organisations.

Throughout the Fellowship, participants can collaborate with a diverse group of like-minded individuals, share insights and develop their own ideas and/or projects. The programme focuses on areas such as responsible banking, new economic models and sustainable finance implementation at banks. Expert speakers from outside the host organisations provide insights on business transformation and methods to deal with external changes, which act as a prompt for facilitated discussion in workshops and peer coaching.

From January to June 2023, there were 18 Fellows on the programme. They came from a wide range of geographical regions, different types of banks and from various departments inside banks. Approximately half the Fellows were in dedicated ESG roles, with the other half in departments such as risk management, legal and operations.

Each Fellow defined a 'critical shift' – a major change they would like to help drive within their bank. Throughout the Fellowship, they applied their learning to bring and move their ideas forward. In addition, Fellows worked in small groups on projects.

The Fellowship is conducted under the Chatham House Rule. At no point were client names or other internal confidential information shared during the programme. All the tasks the Fellows worked on collaboratively were general in nature.

Insights survey and data collection

We surveyed the **Climate Safe Learning Lab** community of bankers and participants in the Climate Safe Lending Fellowship, all of whom are accelerating climate action within their banks, about the state of sustainable finance in banks today. The survey results are discussed in this report.

There were 30 respondents from a range of roles, all actively working inside banks today.

Over half of the respondents were from the following departments:

- Risk (first and second line)
- Front office
- Legal and compliance
- Marketing
- Operations
- IT
- Communications
- HR
- Investor relations
- Regulatory policy and reporting

The remaining respondents were from a mixture of departments and are categorised as 'other'. All survey responses were confidential and anonymised.

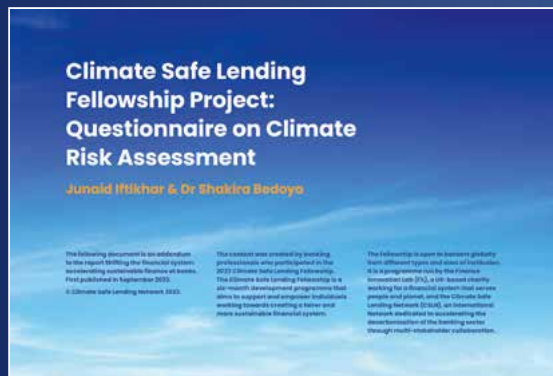
Other information in this report has been collected anecdotally via workshops, verbal exchanges and tools, e.g. Sildo. The author has also included anecdotal evidence based on her own banking industry experience.

The survey findings and insights are indicative. They represent a general view of the state of sustainable finance at banks today. Further research would be required to understand specific banks and individual responses in a more detailed manner.

Example project outputs from the Fellowship

As part of the Fellowship, participants worked in groups on specific projects to address some of the recommendations highlighted in this report. Example outputs from the projects are given below and they are freely available for banks to use. For example, the questionnaire can be integrated into new client onboarding or annual processes. There is also guidance for integrating work on climate across internal departments.

Please click the thumbnails to download the resources:



Banks and decarbonisation primer

Banks play a vital role in the global economy. They facilitate the flow of money between individuals, businesses, and governments.

They do this by offering a wide range of services, including:

- **Deposits**, such as savings and checking/ current accounts
- **Loans**, such as credit facilities to businesses and governments
- **Investments**, such as brokerage and the buying/selling of securities
- **Payment services**, such as online banking, electronic payment systems for credit cards and processing cash
- **Financial management**, such as business advice and budget planning
- **Other services**, such as safety deposit boxes and travellers' cheques.

Banks also create credit or, to put it simply, money in the economy. They do this by using a combination of funding sources, including customer deposits, after meeting regulatory requirements. A summary of this process and the role banks have in facilitating and financing industry (and the climate impact) can be found in the '[Carbon Bankroll](#)' report from CSLN and others.

The following figure shows the position banks have within the economic system. Banks operate within governance frameworks, such as government policy and regulatory standards. They supply money, in the form of loans, and other financial services to businesses, customers and individuals in the real economy. This is the place where decarbonisation of the real economy needs to happen. Shifting the financial system, including banks, is therefore key for an orderly climate transition.

Illustrative extract of the economic system



Policy makers and standard setters

Governance framework



Banks

Part of the financial economy which owns or has claims to own the real economy



Real economy

Individual retail customers and corporations across sectors)

WHERE DECARBONISATION NEEDS TO HAPPEN

Types of banks relevant to the transition

Types of banks relevant for a low-carbon transition include but are not limited to:

Central banks

Responsible for overseeing all other banks, usually at a national level. Communities and individuals are not directly connected to central banks.

Multilateral development banks (MDBs)

Organisations created by a group of countries that provide finance and financial advice to support economic development.

Retail banks

Offer accounts and basic financial services to individual consumers.

Commercial banks

Offer financial products such as loans, deposit accounts and financial advice to businesses of varying sizes in the real economy, including sectors such as agriculture and manufacturing.

Community development banks

Focus on serving people who have been locked out of traditional financial systems, such as the 'unbanked' (those with no access to bank services) or 'underbanked' (those deprived of certain services such as credit cards or loans) in local communities.

Investment banks

Offer more complex financial services used by governments and international businesses. They also act as financial advisors to clients such as pension funds and institutional investors, and assist in raising new capital securities (e.g. by underwriting new bond transactions).

Broker/dealer

An organisation that acts as an intermediary and is authorised to buy and sell securities. Some investment banks operate a broker/dealer entity.



Glossary and abbreviations

CSO

Chief Sustainability Officer.

ESG

Environmental, social, governance.

Financial economy

The part of the economy related to financial transactions and money.

Fiduciary duty

Legal responsibility for a fiduciary (e.g. an investor) to act in the best way possible for a beneficiary (e.g. client).

GFANZ

Glasgow Financial Alliance for Net Zero.

Greenwashing

A form of advertising or public relations that makes an organisation's products, policies or operations appear more environmentally-friendly than they are.

GSIB

Global Systemically Important Bank.

ISSB

International Sustainability Standards Board.

NGFS

Network [of Central Banks and Supervisors] for Greening the Financial System.

R&D

Research and Development.

Real economy

The part of the economy related to the production of goods, such as manufacturing.

TCFD

Task Force on Climate-related Financial Disclosure.

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