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# Banks and financing the transition: faster, higher, stronger?

Review of the banking sector resulting from the CIA 2024 campaign

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- **A bank's carbon footprint is linked to its financial commitments, which are still largely oriented towards an economy dependent on fossil fuels.**
- **Banks have two major levers at their disposal to contribute to the transition: cease or reduce their exposure to activities that emit the most GHG emissions and increase the financing of low-carbon activities.** Banks can implement strict exclusion policies on fossil fuels, covering all their activities: general financing, project financing, investing and capital market facilitation. At the same time, banks can promote financing for the low-carbon transition of the economy by integrating climate factors into their product offerings and credit granting or renewal decisions.
- The CIA methodology focuses on banks' exclusion policies and transition plan assessment, as well as on their product offerings to help customers make the transition, wich are their key differentiating factors.
- **This study analyzes the financing and investment activities of 43 universal banks.** It was carried out by analyzing the data reported for the 2023 financial year and is based on the consolidated financial reports published by the banks, as well as on Pillar III reports for banks in the European Union. The banks with the most positive contributions to the transition are those in the European Union, followed by US banks and Chinese banks, which still finance fossil fuels on a massive scale.
- **Most of the banks analyzed (77%) are not transparent about their main source of emissions, i.e. financed Scope 3 emissions.** For those banks that do report financed emissions, these represent on average only 9.6% of financed emissions calculated using the CIA methodology, as they do not cover all the banks' exposures.
- **Banks need to be more rigorous and ambitious in the transition of the financial sector.** Banks report very little information about their capital market facilitation, which are a major source of financing for fossil fuels. Moreover, the emissions linked to these activities are not covered by their emission reduction targets missions. Finally, the banks' targets in terms of volume of financing for low-carbon activities are not detailed enough, limiting the assessment of their relevance.

## Introduction

To achieve zero net emissions worldwide by 2050 (NZE 2050 scenario), the International Energy Agency (IEA) estimates that by 2030, worldwide, $4.5 trillion must be allocated annually for the development of decarbonized energies. Even in the less ambitious Announced Pledges Scenario (APS), clean energy investment is expected to double in advanced economies and China, and triple for developing economies by 2035[1]. Added to this is the cost of restructuring transport, food systems, industry, shipping and, more generally, the low-carbon transformation of the entire economy. This transition requires investments that far exceed the financial capacities of public entities: the mobilization of private players, and banks in particular, is necessary

In addition to accelerating the transition, it is also necessary to reduce fossil fuel consumption to meet the targets set by the Paris Agreement. However, projected fossil fuel emissions from existing infrastructures could take the world above 2°C warming in a few decades. New funding for such infrastructure is therefore incompatible with the objectives of the Paris Agreement, and current funding must be phased out in line with decarbonization trajectories aligned with the 1.5°C target. Banks play a major role in financing fossil fuels, as such their responsibility to transition into a low-carbon economy is at the heart of the climate debate[2].

In recent years, the banking sector has attempted to align its activities with climate objectives through voluntary actions such as the Net Zero Banking Alliance (NZBA), launched by the UN in 2021. However, several studies[3] reveal that they are not on track to meet their targets.

This study, based on quantitative and qualitative data, assesses banks on the current contribution of their financing to the transition, and on the reliability and consistency of their decarbonization strategy.

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[1] [1] (International Energy Agency, 2024)

[2] [2] (Rickman, Falkenberg, & Kothari, 2024)

[3] [3] (World Resources Institute, 2024)

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