

Tipping points in the banking system

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Overview

The low-carbon transition is underpinning a surge in sustainable finance trends. Announcements and pledges on sustainable finance have taken center stage at COP26 (COP26). For instance, the Glasgow Financial Alliance for Net Zero (GFANZ) – composed by more than 450 banks, insurers and asset managers across 45 countries and responsible for assets over \$130 trillion - promised to deliver up to \$100trn to help economies transition to net zero over the next three decades (GFANZ 2021). Its members committed to ambitious, science-based targets, including achieving net-zero greenhouse gas (GHG) emissions by 2050 and 50% emissions reductions from pre-industrial levels this decade.

However, how quickly the financial sector is moving away from fossil fuels financing and redirecting capital towards low-carbon assets is still an open question. Our analysis examines banks' lending portfolios to assess to what extent climate pledges have translated in investment 'switches' from high- to low-carbon assets.

Methods

We analyse data from Bloomberg on bonds and syndicated loans underwritten for companies involved in the oil, natural gas and coal sector. Those figures are assessed against the debt that each bank has underwritten for low-carbon assets, meaning targeting projects that had to be deemed eligible for green loans and bonds by lenders and investors (Bloomberg 2022). The analysis covers roughly 250 financial institutions worldwide in the banking sector over the period 2010 until 2021, providing a clear picture of the financing trends overtime.

Results

Preliminary results show the fossil fuel debt issuance greatly exceeded green debt financing until 2016. The banking sector has raised roughly \$4000 billion for fossil fuel assets compared to only \$22 billion for green assets over the period 2000-2016. US banks dominate the debt markets for fossil fuel assets. JP Morgan (\$340 billion) and Citi (\$250 billion) have been the largest underwriters for fossil fuel companies since 2000 and maintained their dominance in 2021. Chase, Bank of America and Wells Fargo are the other largest financiers to the oil, gas and coal industry. On the green side, European banks, such as Credit Agricole and BNP Paribas were the leading underwriters of sustainable debt. A strong shift is registered in 2021 where the banking sector has provided similar funding to fossil fuel and green companies, \$592 billion and \$549 billion, respectively – with an expected tipping point in debt-led financing in 2022 based on current trends.

Conclusions

In this analysis we provide a detailed picture of the banking sector's activity in the fossil fuel and green sector. Despite the banking sector has historically supported fossil fuel assets, a clear trend towards green assets starts to emerge since 2021 reflecting their commitments to climate goals.

References

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