Global Climate Finance Survey

A look at how financial firms are approaching climate risk analysis, measurement and disclosure

Institute of International Finance

European Banking Federation

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ABOUT THE SURVEY:

• With a growing focus on the need for a robust toolkit for climate risk management and disclosure, the Institute of International Finance (IIF) and the European Banking Federation (EBF) have conducted a comprehensive survey of their members on how they are assessing and measuring climate risks and opportunities, as well as progress on disclosure.

• With total assets of nearly $40 trillion, 70 firms participated the survey: 53 banks and 17 other financial institutions, including asset managers, insurers and pension funds. Regionally, these firms are headquartered in developed Europe (27), emerging market economies (27) and other mature economies (16).

KEY FINDINGS INCLUDE:

• Adoption of the Task Force on Climate-related Financial Disclosures (TCFD) recommendations varies widely across geographies. While some 60% of respondents in mature economies comply (fully or partially) with TCFD recommendations, only 37% of financial institutions in emerging markets disclose TCFD-aligned information.

• "Shadow" carbon pricing on the rise: While only 21% of respondents reported using internal (shadow) carbon pricing in planning or decision-making, a further 14% reported plans to do so.

• Better processes needed for risk management: Over 45% of survey participants stated that their risk management framework includes an explicit process for identifying and assessing climate-related risks and opportunities. However, only 17% of respondents have fully integrated this process into their organization's overall risk management framework.

• Progress on measuring Scope 1 and 2 emissions, but a long way to go on financed emissions: To date, most surveys have focused on reducing their carbon footprint stemming from direct (Scope 1) and indirect (Scope 2) upstream greenhouse gas (GHG) emissions. However, there is little consensus on how to measure and report Scope 3 emissions, particularly so-called "financed emissions" associated with global lending and investment activities. Overall, only 18% of respondents reported having an in-house framework to track financed emissions.

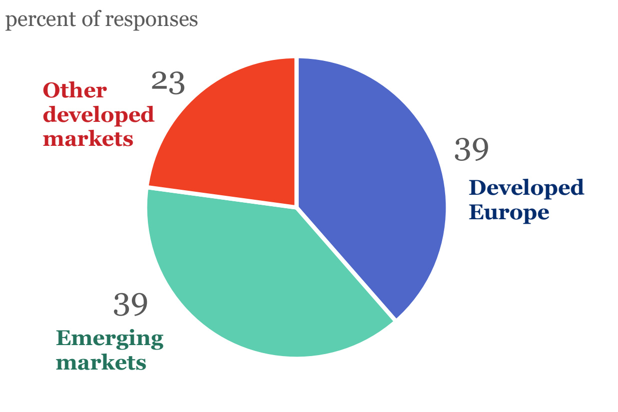
• Strong demand for a better toolkit: Financial firms are using a broad range of data/service providers as part of their analysis of climate risks and opportunities, and to help with disclosure. To complement this survey and help firms understand the evolving landscape, the IIF held series of workshops this year in Amsterdam, Frankfurt, New York, Paris, Tokyo and Zurich, with speakers from the TCFD, the European Banking Authority (EBA), Japan's Financial Services Agency (FSA), the Partnership for Carbon Accounting Financials (PCAF), the Science Based Targets Initiative, 2° Investing Initiative, UNEP-FI Pilot Project on Implementing the TCFD Recommendations, MSCI Carbon Delta, South Pole, Carbone 4, ISS-ESG, Four Twenty Seven, Vigeo Eiris, and Trucost as well as Moody's Investors Service and S&P Global Ratings.

FINDINGS:

The Institute of International Finance (IIF), in conjunction with the European Banking Federation (EBF), surveyed IIF and EBF member firms from mid-September 2019 through mid-October 2019. With total assets of over $39 trillion on their balance sheet, 70 firms participated the survey: 53 banks and 17 other financial institutions, including asset managers, insurers and pension funds (Chart 1).

Regionally, those firms were headquartered in developed Europe (27), emerging market economies (27) and other developed countries (16). Contributing firms' lead sustainability managers or other senior-level risk managers completed the survey.

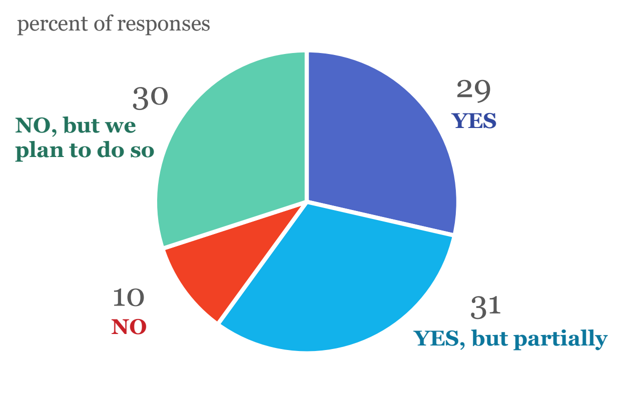
Chart 1: Participant demographics, by region of headquarters



Source: IIF/EBF Global Climate Finance Survey

Adoption of the TCFD recommendations varies widely across geographies: The survey reveals that most financial firms follow the TCFD recommendations fully or partially (Chart 2). While 40% of firms acknowledged that their climate disclosures do not comply with TCFD recommendations at present, over 75% of those firms plan to adopt the TCFD recommendations in the very near future. Overall, 10% of the participants appear hesitant to track the TCFD guidelines as they continue to release data on different platforms, including the CDP questionnaire.

Chart 2: Does your institution follow TCFD recommendations on climate-related disclosures?



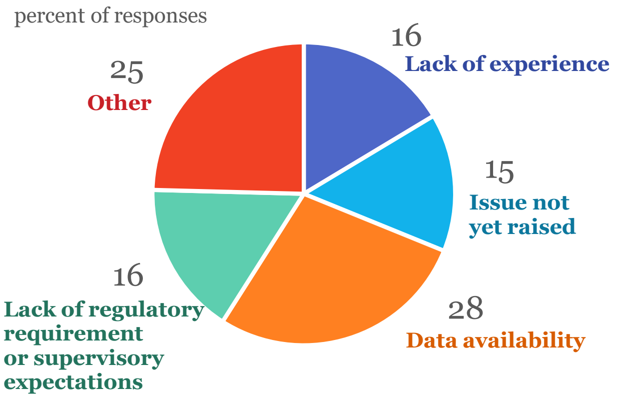
Source: IIF/EBF Global Climate Finance Survey

Across regions, only 37% of financial institutions in emerging markets disclose information aligned to TCFD recommendations. Over 80% of the respondents in developed Europe and over 70% of the firms in other mature markets release information in line with TCFD recommended disclosures.

Wide variety of practices in identifying climate risks and opportunities: Over 45% of participants acknowledged that their risk management framework includes an explicit process for identifying and assessing climate-related risks and opportunities. However, only 17% of participant firms have fully integrated this explicit process into their organization's overall risk management framework. While 10 institutions (or some 15% of respondents) said that their practices include explicit climate-related stress tests and scenario analyses, only three of them have disclosed the results of those climate-related stress tests and scenario analyses.

For the 36 firms without an explicit process for identifying and assessing climate risks and opportunities, challenges related to data availability have been highlighted as the major impediment to developing an explicit process. Lack of experience and lack of regulatory guidance were cited as other major impediments (Chart 3).

Chart 3: Impediments to developing an explicit process to identify and address climate risks and opportunities

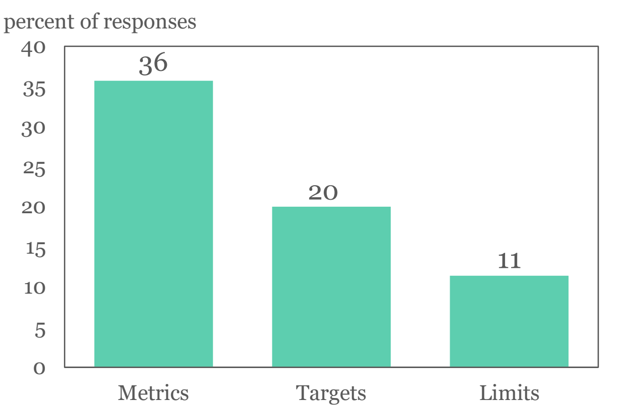


Source: IIF/EBF Global Climate Finance Survey

Limited usage of metrics, targets and limits: While some 45% of financial firms in our sample utilize specific metrics, targets and limits to assess climate-related asset/liability risks and opportunities, practices vary significantly across firms and regions.

Overall, 36% of the firms use metrics such as carbon footprint, carbon intensity, green share, brown share, exposure to coal and fossil fuels to identify exposure to climate-related risks. However, assigning targets on these metrics and usage of limits on certain activities are not common practice—at least yet. Only 20% and 11% of the firms use targets and limits, respectively (Chart 4).

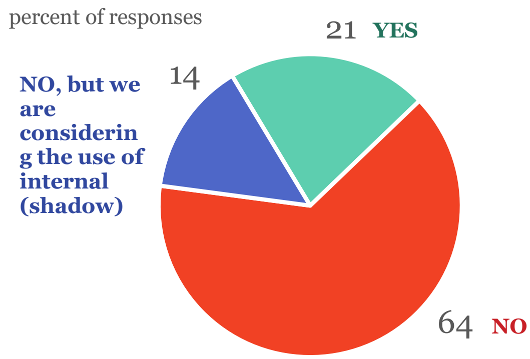
Chart 4: Use of metrics, targets and limits



Source: IIF/EBF Global Climate Finance Survey

Use of shadow carbon pricing set to increase: Over 20% of firms use internal (shadow) carbon prices associated with their activities, acknowledging their significant importance in assessing project profitability and managing reputational risk—an important signal to stakeholders showing that the firm takes its commitment to climate change mitigation seriously. A further 14% are considering the use of an internal price on greenhouse gas emissions (Chart 5). By region, use of shadow carbon prices is somewhat more common in mature markets outside Europe and in emerging markets.

Chart 5: Does your institution use any internal (shadow) carbon prices in planning or decision-making processes?

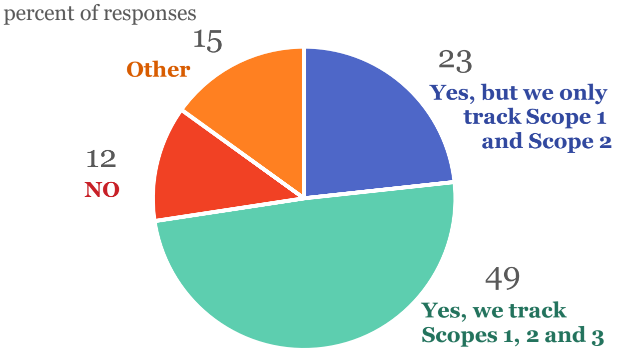


Source: IIF/EBF Global Climate Finance Survey

Tracking carbon footprint is a common practice... Over 70% of the financial firms in our sample track their carbon footprint. This is a common practice in all regions. However, the scope of coverage and disclosure practices differ significantly across firms and regions.

While almost half of the firms acknowledge that they cover Scope 1, Scope 2 and Scope 3 emissions, they only disclose partial information on Scope 3 (Chart 6).

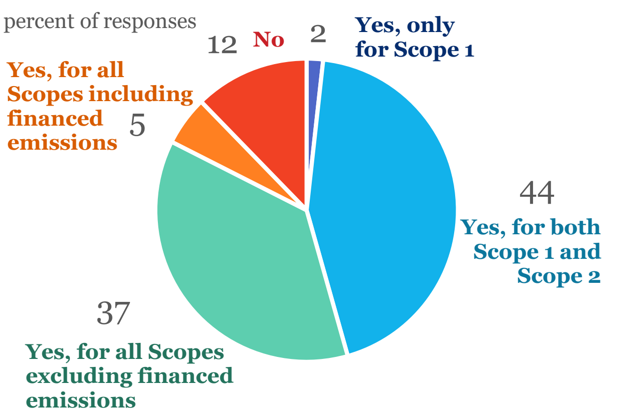
Chart 6: Do you disclose Scope 1, Scope 2 and Scope 3 greenhouse gas emissions as described by the GHG Protocol?



Source: IIF/EBF Global Climate Finance Survey

…but only 3 firms set explicit "financed emissions" goals: Nearly 45% of firms in our sample report explicit and measurable carbon emission goals for both Scope 1 and Scope 2 emissions (Chart 7). A further 37% set goals for all scopes excluding financed emissions i. e. emissions associated with lending and investment activities (Scope 3, Category 15).

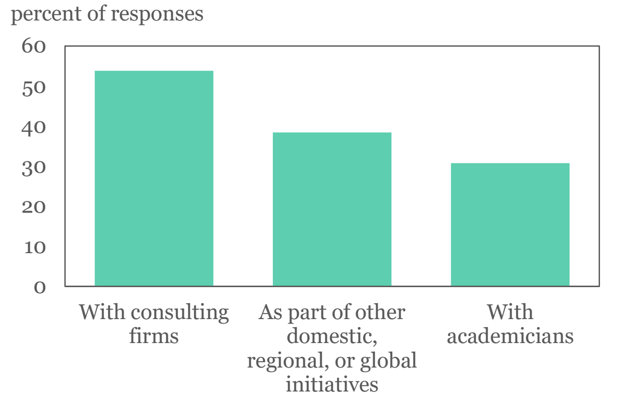
Chart 7: Does your institution report explicit and measurable carbon emission goals?



Source: IIF/EBF Global Climate Finance Survey

Overall, 18% of survey participants acknowledged that they have an internally developed framework to track carbon emissions associated with their lending and investment activities. Participants with explicit frameworks to measure financed emissions revealed that most of these tools have been mainly developed in collaboration with consulting firms and/or as a part of domestic, regional or global initiatives (Chart 8).

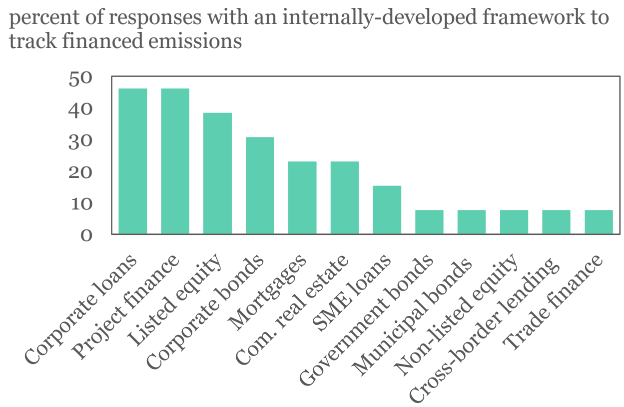
Chart 8: How has your institution's framework to track financed emissions been developed?



Source: IIF/EBF Global Climate Finance Survey

Limited asset coverage: Over 40% of the financial firms with an internally developed framework for measuring financed emissions have explicit carbon tracking methodologies for corporate loans and project finance as well as listed equities (Chart 9). Other most common asset classes include corporate bonds and real estate.

Chart 9: Which asset classes does your tracking framework for financed emissions include?



Source: IIF/EBF Global Climate Finance Survey

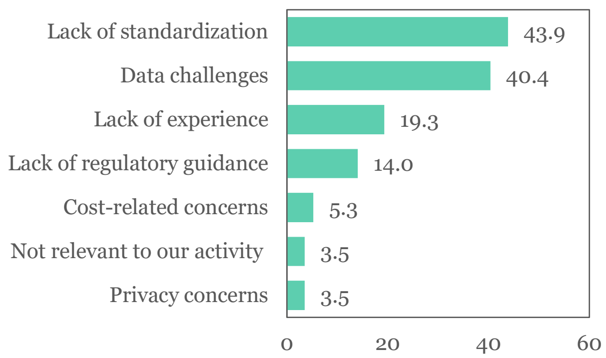
More firms are expected to begin tracking financed emissions… Over 35% of the firms, mostly in developed Europe, are currently developing a framework to track Scope 3 financed emissions (Category 15). Over 15% of the banks reported that they use third party data/service providers to track financed emissions.

...but over 50% of the firms have been reluctant to disclose data on financed emissions due to the lack of standardized/harmonized accounting frameworks and data challenges (Chart 10).

Over 30% of participants noted that they do not plan to disclose data on financed emissions in the foreseeable feature, many noting that that data on Scope 3 financed emissions in particular are not of good enough quality to be helpful in managing climate-related financial risks. Moreover, such data are not forward-looking enough to help align firm portfolios with climate targets.

Chart 10: What prevents you from disclosing data on financed emissions?

percent of responses that do not disclose data on financed emissions

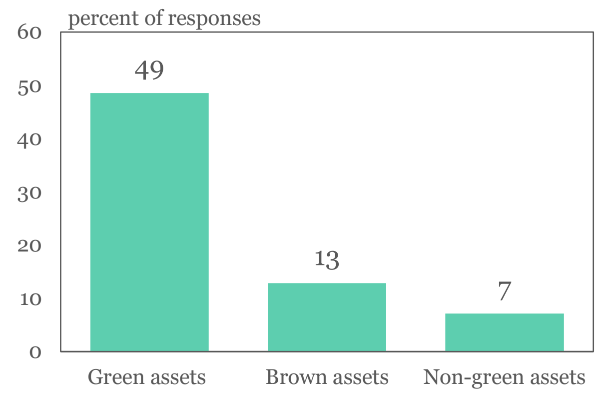


Source: IIF/EBF Global Climate Finance Survey

Financial firms utilize a broad range of data/service providers as part of their climate risk analysis: The most common providers reported include, but are not limited to 2° Investing Initiative, 427, Bloomberg, CDP, MSCI, Navigant (Ecofys), Refinitiv, RepRisk, Sustainalytics, and Trucost.

Tracking green and brown assets: Nearly 50% of financial firms monitor the share of green assets in their lending and investment portfolios while only 12% of firms keep track of brown assets (Chart 11).

Chart 11: Other than the Scope 1, 2, and 3 carbon emission indicators, do you use other indicators to track climate finance?

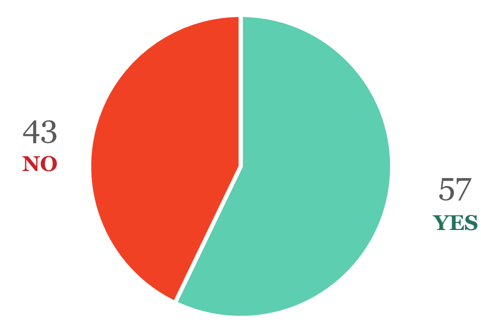


Source: IIF/EBF Global Climate Finance Survey

With over 57% of financial firms issuing their own sustainable instruments (Chart 12), firms provide a broad range of sustainable products to their clients. Green bonds (75%) and green loans (65%) constitute the most common sustainability products (Chart 13).

Chart 12: Has your institution issued its own sustainable instrument(s)?

percent of responses

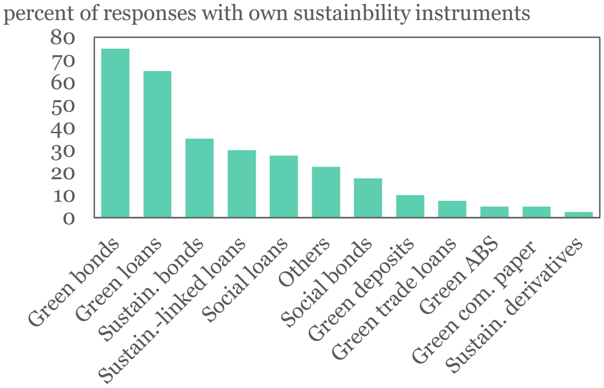


Source: IIF/EBF Global Climate Finance Survey

While green bonds are most popular in developed countries, emerging market respondents tended to favor green loans (also a reflection of EM market structure).

Chart 13: What sustainability instrument(s) does your institution issue?

percent of responses with own sustainbility instruments

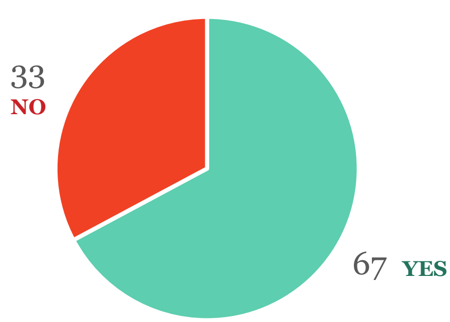


*Source: IIF/EBF Global Climate Finance Survey ; *includes green leasing, impact funds, Eco-credit to SMEs, etc.*

Shortage of sustainable products: More than two-thirds of financial firms reported that there is a relative lack of sustainable finance products available on the market, with no significant differences in participant responses across regions (Chart 14).

Chart 14: Do you perceive there to be a relative lack of sustainable finance products available on the market?

percent of responses

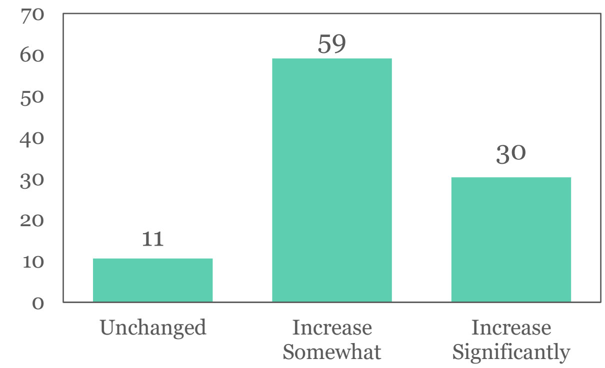


Source: IIF/EBF Global Climate Finance Survey

Client interest in sustainable products on the rise: Almost 90% of survey participants expect client demand for sustainable instruments to increase over the next twelve months (Chart 15). The rise in appeal is expected to be more pronounced in developed Europe (96%), followed by other mature markets (92%) while 80% of the financial firms in emerging markets expect an increase in clients' interest in sustainable products.

Chart 15: Over the next twelve months, how do you expect your clients' demand for sustainable instruments to change?

percent of responses

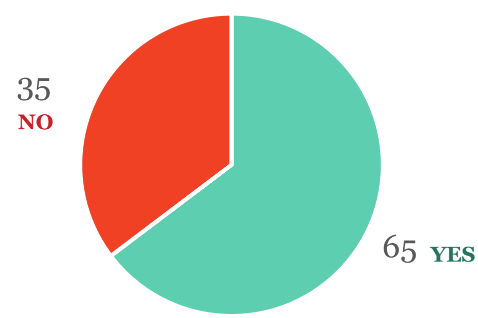


Source: IIF/EBF Global Climate Finance Survey

"Green" regulatory fragmentation is a big source of concern: Over 65% of survey respondents believe that current regulatory initiatives will have a material impact on the market environment for sustainable finance (Chart 16), citing the EU Action Plan for Financing Sustainable Growth as the single most common factor shaping global trends at the moment. The NGFS workstreams and the TCFD recommendations on climate-related financial disclosure are other common factors highlighted by survey participants.

Chart 16: Are there current regulatory initiatives that you see materially affecting the market environment for sustainable finance activities?

percent of responses

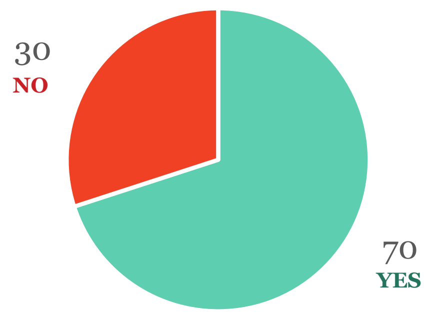


Source: IIF/EBF Global Climate Finance Survey

Call for greater collaboration among stakeholders: Most of the survey participants indicated willingness to coordinate with the IIF and the EBF to promote best practices and enhance financial firms' climate-finance tracking and reporting frameworks (Chart 17). However, many firms remain concerned about the increasing number of new initiatives with similar goals. Many of these frameworks overlap and it can be difficult to distinguish between the goals of the initiatives.

Chart 17: Would your institution be interested in collaborating with the IIF Sustainable Finance Working Group to develop an open-source framework for assessing climate finance risks at the client level?

percent of responses



Source: IIF/EBF Global Climate Finance Survey