

Banks must seize opportunities of climate crisis, says EA Chief

Banks around the world have been warned not to fight against the winds of change from COP26 and to seize the massive investment opportunities of tackling the climate emergency by the Chief Executive of the Environment Agency.

Speaking at an event hosted by the Association of Foreign Banks, Sir James Bevan warned that banks which failed to divest from coal and oil would be left behind following the global signals towards a net zero future made by the private sector at COP26:

The main messages out of Glasgow are brutally simple, and they apply to banks and other businesses as much as to the rest of us. There is no future in carbon. We must adapt or die.

After COP, investments in coal, oil and other dirty energy are no longer safe bets. As more and more nations move to net zero, fossil fuels will increasingly need to stay in the ground. The market sees that and is on the move.

Since the 2015 Paris agreement, coal's share of global electricity generation has fallen from 39% to 35%, with wind up from 3.5% to nearly 7%, and solar from 1% to 3.5%. Renewable sources of energy now generate electricity at a lower cost than coal. The cost of solar energy has dropped from around \$8 per watt in 1988 to 20 cents or less now. Smart companies, including smart banks, are getting out of carbon fast and divesting themselves of what will soon be stranded assets.

Sir James said the speed of the shift to a low or no carbon economy was likely to increase following the Glasgow Summit:

Throughout history, the most important and disruptive changes have gone through the same cycle. First they are unthinkable, then they look impossible. After that they begin to become feasible, and then they start to happen – slowly at first and then suddenly.

Action on climate which may look politically difficult today could become a massive vote winner after the next devastating firestorm or flood.

Would you really bet against the climate emergency itself, which is driving the actions of politicians and the market? Would you bet against the ingenuity of humans, who have a habit of coming up with game-changing solutions to seemingly impossible technological problems? Would you bet against the courts? Or the consumers? Or public opinion? That's a pretty big coalition to risk your money on.

As well as warning banks of the dangers of sticking with the status quo, Sir James urged them to seize the opportunities of making investments to tackle the climate emergency and praised the work of many that are already going down the path.

A recent report by the Global Commission on Adaptation which found that although it would cost \$1.8 trillion this decade to make the world more resilient to the effects of climate change, that investment could yield over \$7 trillion in net benefits. The Environment Agency has previously said it is much cheaper to invest early in climate resilience than to live with the costs of inaction.

All businesses exist to make money. They all need to do well but in my experience most of them also want to do good. The reality today is that the business world is leading the way on climate and more and more of it is doing well by doing good. Much of the progress now being made, and perhaps the most decisive progress of all, is being made by you – by the banks, the pension funds and the wider financial sector.

The European Central Bank has set out expectations of how banks should manage and disclose their climate risks and is an international advocate for an effective carbon price. At home the Bank of England is ensuring that the financial system is resilient to climate risks and supportive of the transition to net-zero. Lloyds, the UK's largest domestic bank, has set itself the goal of reducing the carbon emissions it finances by more than 50% by 2030. Another UK bank, Triodos, aims to finance only projects with a positive impact on society and the environment.

The Environment Agency's own Pension Fund has a commitment to reduce our listed equity emissions by 95% by 2030 and to allocate money to fund the low carbon transition and help build resilience. In 2017 we joined with the Church of England to launch the Transition Pathway Initiative, which empowers investors to align their portfolios with the goals of the Paris Agreement: it now has support from over 100 global investors with combined assets of over \$39 trillion.

So far from gambling the planet away on dirty investments as some activists claim, let's recognise that more and more investors are actually driving the evolution of the new economy we need to save the planet. So here's a sentence I never thought I'd say: when we talk about tackling the climate emergency, let's say thanks to the banks."

He concluded that on climate, COP26 has given us a chance to make history, or

be judged by it. As an essential part of the economy, and with more power than most countries, banks will be crucial in delivering on that ambition.

On its own, COP26 could never put out the planet's fire. But it offers us a path to do so. When historians look back at Glasgow, how they judge it will depend on what we all do now.