

The Climate Emergency: Finance need to act now

The Paris Agreement appeals to the world community to take action to limit global temperature rise to preferably 1.5°C. A rapid decline of global greenhouse calls for a comprehensive transition towards a more sustainable society, starting as soon as possible. Triodos Bank supports this goal and sees an important role for the financial sector.

Since its inception about 40 years ago, Triodos Bank strives to finance projects with a positive impact on society and the environment. This means that we have never funded fossil energy production. We have built an extensive track record financing renewable energy projects, from the first wind turbine in 1987 to the offshore wind farms we finance today. We see more and more financial institutions moving towards a more sustainable business model.

This is positive, because the financial sector fulfils many important functions in society. One of these is financing entrepreneurs and institutions committed to tackling major social and ecological issues. According to the 2018 report of the High-level Advisory Group on Sustainable Finance, an investment of EUR 11.2 trillion is required to meet the European 2030 energy policy and targets set in the Paris Agreement. In financing the energy transition, the bulk of the financing comes from banks (50-90%).

On the other hand, the vast majority of energy investments is still done in fossil fuels. A shift of money from fossil to sustainable investments is vital for a transition to a low carbon economy. In other words, to change the world, we also need to change finance.

Therefore, changing finance to finance the transition should be a core topic at any COP, as it is at the current climate summit in Madrid. Triodos Bank is present at this COP to show how the financial sector can contribute to societal goals and how governments can support the financial sector to shift their money from a high to low carbon economy.

Financial institutions themselves could and should do more to understand, and change for the better, the impact of all projects and companies they fund. And foremost, new investments in fossil energy production should end as soon as possible and a process of phasing out and controlled dismantling of fossil capacity should be priority in government policies and in business and finance strategies. In this context, we welcome the activities of supervisory authorities in the field of management of climate related risks. More pressure is needed to maintain financial stability during the transition and avoid financial institutions being overexposed to stranded assets.

Besides financing a low carbon economy, Triodos Bank encourages financial institutions to align with the broad range of climate related activities within the financial sector. Triodos Bank is founding member of the Partnership Carbon Accounting Financials (PCAF). Launched by several Dutch financial institutions at the Paris Climate Conference in 2015, PCAF has become an international effort

which aims to stimulate all financial institutions to account for their carbon emissions, as a key step to aligning the impact of their finance with the Paris Climate Goals. The group has developed a tangible methodology to assess the carbon footprint of their loans and investments. Internationally, Triodos Bank aims to be a catalyst for the widespread adoption of PCAF. Together with our partners in PCAF, we want to inspire financial institutions to assess and reduce the carbon footprint of their finance.

In the context of the Dutch Climate Agreement (the Dutch NDC), Triodos Bank has, in cooperation with sustainable partners in the financial community and the Dutch government, actively promoted the adoption of PCAF and complementary methodologies to measure and reduce the carbon footprint of assets and portfolios. This has resulted in a general commitment of over 50 Dutch financial institutions to the goals of the Dutch Climate Agreement. This commitment contains the promise that all endorsing financial institutions – banks, insurance companies, pension funds and investment management companies – will in the upcoming years disclose the carbon footprint of relevant assets, ultimately in 2020, and set reduction targets, no later than in 2022. The scope of this commitment regards about EUR 3000 billion in outstanding assets.

In September 2019, the UN Principles for Responsible Banking were adopted. These principles set out a roadmap for banks across the world to improve the knowledge of their impact on society and to act accordingly. Triodos Bank has played an active role as member of the founding group of banks, sharing our experience and bringing the principles of the Global Alliance of Banking on Values (GABV, of which Triodos Bank is a member) into the discussion. We hope and expect that many banks will adopt these principles and thereby change the way they operate in order to contribute to the realization the Paris Agreement goals.

Change Finance also applies to financial regulation. The EU has signed the Paris Climate Agreement, which commits European governments to make their economies climate neutral by 2050. The EU has launched the Sustainable Finance Action Plan change the rules of the financial sector. The connecting element of all activities of the EU is to create and disclose (more and better) insight in the impact of finance aiming to promote funding of sustainable activities. Triodos Bank supports the general direction of the action plan. At the same time, we have brought forward in conversations with EU policy makers that the action plan should first and foremost lead to regulating what matters most now: the phasing out and termination of fossil investments and funding of projects with a high carbon footprint. All finance has an impact, so for investors to make truly informed choices, they need to know the impact of all their investments.

Last, but not least, to finance the transition towards a low carbon economy, in its recent vision paper on energy and climate Triodos Bank proposes several actions financial institutions should take and which governments can promote. Among these are seeking non-mainstream opportunities, investing in emerging markets, developing new business models and focusing on project finance.

We call on everybody to act now. Today's climate emergency can only be addressed when we all take on the responsibility to act now and do so together.