

Moral Money **Climate change**

Banks risk being caught off-guard by climate change

Report finds institutions are not doing enough to make their balance sheets more green



Energy companies are increasingly disclosing that they could be cut off from the lending and bond markets as banks assess the impact of climate change © Bloomberg

Billy Nauman and **Patrick Temple-West** in New York FEBRUARY 21 2020

Climate change is creating substantial, unrecognised risk in the financial system as banks are failing to prepare for green regulation and carbon taxes that will have an impact on the companies they lend to.

According to a recent analysis by the consultancy Oliver Wyman, oil and gas companies — many of which are already [under pressure](#) from low fuel prices — will be two to three times more likely to default on their debt if the countries signed up to the Paris climate accord institute a \$50 a tonne carbon tax. If the carbon taxes were to go to \$75 a tonne, as the IMF [has recommended](#), the risk would be even greater.

Yet the financial services industry was in danger of being caught flat-footed, Oliver Wyman said.

Some banks, [such as Natixis](#) and BNP Paribas, have taken steps to make their balance sheets more green, but the industry still had a lot of work to do, said Ted Moynihan, global head of financial services at Oliver Wyman.

“We have yet to find a single bank that has developed a way to embed the outcomes of climate-risk scenario analysis . . . across the loan book,” Oliver Wyman said in a report published on Friday.

In total, banks provided about \$654bn in financing to fossil fuel companies in 2018, according to the latest data available from the Rainforest Action Network.

The [climate discussions](#) at this year’s World Economic Forum in Davos were an “inflection point” for the industry, said Mr Moynihan, but those talks have not yet translated into action.

However, that may soon change as lenders begin to hear cries from their shareholders to address the problem. Barclays, for example, has faced pressure to [stop financing](#) some fossil fuel companies.

Additionally, central banks are beginning to incorporate [climate change](#) risks into stress tests. Mark Carney, the outgoing Bank of England governor, said in December that the UK central bank would ask companies to model their exposures to the Paris climate agreement’s targets among other metrics.

However, Oliver Wyman warns banks against immediately ditching fossil fuels. “Stopping financing and lending to ‘old world’ energy companies isn’t the answer yet,” Mr Moynihan said. “We need large energy companies [to provide] the energy we need for the future. If they can’t, ultimately they have to fall by the wayside and be starved of capital.”

And although it is early days for banks embracing climate risk, there is evidence this is already happening in some sectors. Peabody Energy recently struggled to close a refinancing deal due in part to banks’ [ESG concerns](#), said Ben Nelson, Moody’s analyst. And energy companies are increasingly disclosing that they could be cut off from the lending and bond markets as banks assess the impact of climate change.

Devon Energy Corp, a US oil and gas provider, said in a filing this month that banks’ concerns over climate change could “make it more difficult to fund our operations”.