



Coming into Alignment

Largest Financial Institutions Target Net Zero, but Gaps Remain

A growing number of financial institutions are committing to align their lending and/or investing portfolios with net-zero targets. One year after its launch, RMI's Center for Climate-Aligned Finance has analyzed net-zero commitments from the largest financial institutions (LFIs) globally to shed light on the net-zero commitment landscape. This is important for highlighting momentum in the market, identifying where gaps are emerging, and understanding the direction of travel toward climate alignment.

A commitment to net zero has now become the foundational expectation for the financial sector, but that is a recent development—with the first such commitment made in 2019. As of June 2021, nearly 40 percent of LFIs—defined here as controlling more than \$500 billion in assets—have now made net-zero commitments. These 45 net-zero-committed LFIs control nearly \$70 trillion of capital.¹ Although net-zero commitments are now common among large European and North American financial institutions, we identify gaps among Asian-Pacific (APAC) institutions and large pension and sovereign wealth funds.

However, there is no assurance that a 2050 net-zero target translates into decarbonization. The lack of commonality between current commitments makes it challenging to evaluate the sufficiency of those commitments. Furthermore, variations at the firm level make it difficult to track real progress and compare levels of ambition across the financial sector. For example, in this analysis we track firms committing to net zero by 2050, as well as Paris alignment and 1.5°C degree targets, and note further nuances among the sectoral and portfolio coverage within the targets. Going forward, the challenge will be to ensure that target setting is followed up with actions that drive the real economy toward a 1.5°C future.

Europe Led the Net-Zero Way, but North America Is Catching Up

The proportion of LFIs with net-zero commitments varies by geography. Europe has the highest percentage of net-zero-committed LFIs, with 65 percent compared to 39 percent in North America. Only 9 percent of APAC-based LFIs have net-zero commitments (concentrated in Japan and Australia). None of China's 14 LFIs have made net-zero commitments despite the national commitment to net zero by 2060. Similarly, none of the three largest Middle Eastern sovereign funds have made net-zero commitments despite all committing to climate action via the One Planet Sovereign Wealth Fund Framework.

Recent acceleration among the biggest firms in North America means that the region has now surpassed Europe in terms of total assets of financial institutions with net-zero commitments (\$40 trillion in North America versus \$28 trillion in Europe).

¹Note on our methodology: LFIs are defined in this analysis as financial firms that control over \$500 billion in assets globally as of March 2021. Lists of LFI attributes are aggregated from: the Thinking Ahead Institute 2020 lists of largest asset owners and asset managers and the S&P Global 2021 list of largest banks. Commitments are difficult to track, as they vary in their scope and transparency, but we focus on firms that have made explicit or implicit (e.g., via initiative membership) targets of net-zero alignment by 2050 or sooner in at least part of their business. Data was gathered from corporate websites and net-zero initiatives.

Key Takeaways:

Net-Zero Commitments Are Mainstream but Not Universal

Of the world's 119 large financial institutions (LFIs), 45 have made net-zero-by-2050 commitments. However, 62 percent of LFIs have not made a commitment, with institutions headquartered in Asia-Pacific lagging behind.

Lack of Common Language Makes It Difficult to Track and Assess Commitments

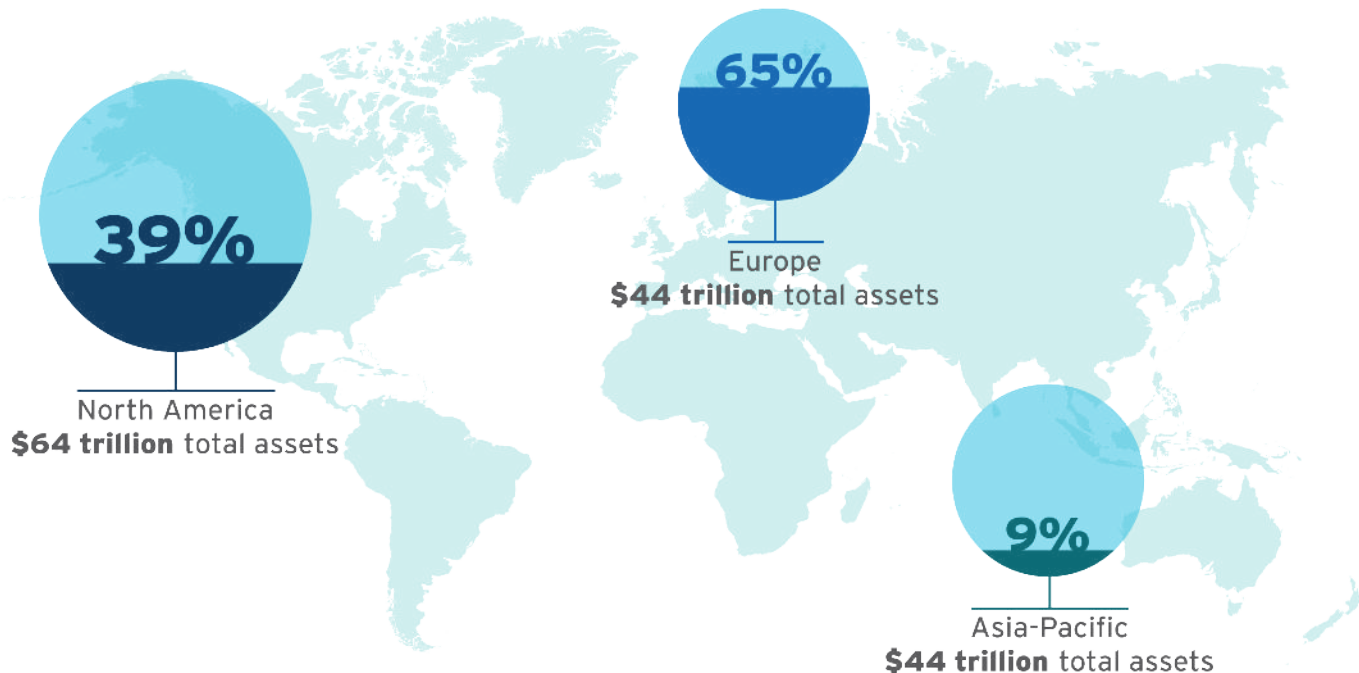
While momentum is positive, quantifying the financial sector's net-zero commitments is challenging because their scope and transparency vary significantly. Some commitments cover the entire business, while others focus on specific portfolios or business units.

Interim Targets Can Clarify Ambition but Should Be Followed by Action

Only 14 LFIs have published interim targets to date, while the other 31 net-zero-committed LFIs are due to publish targets in the next 18 months. However, target setting alone will not be enough to achieve alignment, and LFIs should focus on developing and enacting implementation strategies to achieve real-economy decarbonization.

Penetration of Net-Zero Commitments by Region

Percentage of LFI with net-zero commitments vs. total assets controlled by all LFIs



45 large financial institutions with at least **\$500 billion** in assets have made net-zero commitments.

These firms collectively control **\$70 trillion** in assets.

Net-zero commitment varies by geography:

65% of European LFIs

39% of North American LFIs

9% of Asian-Pacific LFIs

100% of insurers, **44%** of banks, **31%** of asset managers, and **10%** of asset owners with **\$500 billion** in assets have made net-zero commitments.

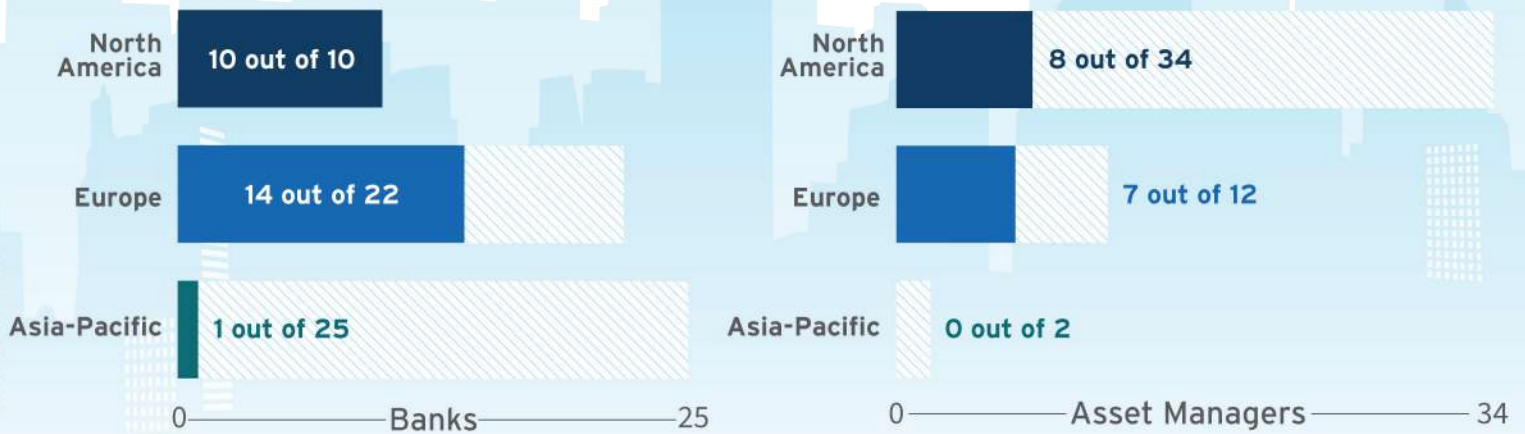
Varying Ambitions

There is also variation in net-zero commitments among the different types of financial institutions. Banks and asset managers together make up 88 percent of the world's 119 LFIs and 89 percent of net-zero commitments, with banks slightly ahead of asset managers in terms of percentage of LFI commitments (44 percent versus 31 percent). However, when accounting for the proportion of total assets held by LFIs globally, asset managers with net-zero commitments appear slightly ahead of banks (50 percent versus 41 percent). And they have a similar asset value—\$31.6 trillion and \$32.9 trillion are held by global large asset managers and banks, respectively, with net-zero commitments.

While asset owners were the first to establish a peer network for net-zero ambition (the Net-Zero Asset Owner Alliance, launched in September 2019), many net-zero asset owners are excluded from this study due to their total assets being below \$500 billion. Of the 10 asset owners globally that exceed this threshold, only 1 has a net-zero commitment. Notably, all four insurance companies with at least \$500 billion in assets have made net-zero commitments, though these only extend to their investment portfolios rather than their core underwriting business.

In the banking sector, North America has emerged as a front-runner, in terms of commitments, with all 10 large North American banks setting net-zero or Paris alignment targets in 2020 and 2021. Within asset management, Europe leads the way in terms of the proportion of firms making net-zero commitments (7 of 12, or 58 percent), compared to 8 of 34 (24 percent) large asset managers in North America. However, these eight North American firms manage \$25 trillion, more than 50 percent of the assets managed by the largest North American asset managers, 80 percent of global assets under management among large net-zero asset managers, and 35 percent of total assets with net-zero commitments in our study.

Net-Zero Commitments by Banks versus Asset Managers



All 10 large North American banks have set net-zero or Paris alignment targets.

Only 24% of large North American asset managers have made net-zero commitments, but they account for a disproportionate amount of assets under management.

Lack of a common framework has led to fragmented and vague commitments.

Interim targets can help **bridge the gap** in both ambition and transparency.

14 firms have published 2030 interim targets.

Different Terms for Different Firms

There is currently no common language or framing in net-zero commitments, leading to a range of ambition and ambiguity. Some commitments only cover specific business units or are limited to lending or investment portfolios. No net-zero commitments cover insurance underwriting activities. Other institutional commitments are so vague that identifying coverage is impossible. Net-zero commitments are a welcome first step, but greater standardization and granularity of targets is required to enable accurate assessment of sector-wide climate alignment.

In the Interim

Commitments to net zero by 2050 or sooner are an important first step in demonstrating intention to support climate alignment, yet there is no assurance that a 2050 net-zero target translates into real-economy decarbonization. To keep to 1.5°C, scientists agree that we should cut emissions by 50 percent by 2030. LFIs are therefore coming under increasing pressure to publish interim 2030 targets, which can inform corporate decision-making and accelerate action.

All of the 45 LFIs with net-zero commitments in our study have already produced interim 2030 targets (14) or have committed to produce them (31) in the next 18 months, suggesting that this is a clear direction of travel for the finance sector. This momentum has been driven in part by the GFANZ networks (including the Net-Zero Asset Owner Alliance, Net-Zero Banking Alliance, Net-Zero Insurance Alliance, and Net Zero Asset Managers initiative), which require members to publish interim targets as part of their commitment.

Next Steps on the Road to Alignment

In the past two years, financial institutions have joined the global race to net zero, with 38 percent of the largest financial firms in the world making net-zero commitments. The direction of travel is clear, with interim 2030 target setting a key trend in 2021 ahead of COP26 in Glasgow. Financial institutions will continue to experience pressure to increase ambition and to extend coverage of targets across sectors and portfolios. Net-zero commitments are also gaining momentum among smaller financial institutions as well as global corporates and governments.

From Target-setting to Implementation

Financial institutions should implement 2050 and 2030 net-zero targets with near-term actions



Momentum is clear, but commitments need to be followed by action to influence real-economy decarbonization.

The growth in target setting represents an initial step in orienting the financial sector toward the energy transition. Yet, commitments and targets alone will not drive progress. Financial institutions need to translate goals into real-economy decarbonization. To implement alignment targets, financial institutions and their stakeholders can evaluate, develop, and adopt strategies that utilize the **levers of influence** available to the financial sector. These include deployment of financial products that incentivize decarbonization through greater capital availability and/or lower cost of capital, stewardship that speeds corporate transition, and exercising corporate voices to change the policy environment. Over time, these approaches to drive portfolio alignment can be further enhanced and standardized through the development of consistent **sectoral, regional, and global frameworks**.



About the Center

The Center for Climate-Aligned Finance was established by RMI to help the financial sector transition the global economy toward a zero-carbon, 1.5°C future. With deep partnerships in finance, industry, government, and civil society, the Center works to develop decarbonization agreements within high-emitting sectors, build global frameworks for climate alignment, and support financial institutions in decarbonizing their lending and investing portfolios. Launched in 2020, the Center builds on RMI's nearly 40 years of experience developing market-based solutions to accelerate the energy transition.

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