Since the Paris Agreement at the latest, it has been widely acknowledged that climate risks are also a relevant consideration for banks. If climate change is to be tackled seriously, it not only means that no new coal-fired power plants can be built, but that existing ones will need to be shut down. Abandoned construction projects and power plants that are decommissioned before they break even are stranded assets that no bank wants to have on its balance sheet. Coal is only the tip of the iceberg in this respect, and the financing of fossil fuels in general is becoming increasingly risky.

How major banks address climate risks

These facts have not been lost on investors, who are becoming increasingly interested in how banks deal with climate risks. Boston Common Asset Management represents a coalition of investors managing a total of $500 billion. Since 2014, the group has been studying banks' strategic approaches to climate risks. In January 2017, it published "On Borrowed Time: Banks and Climate Change", a report for which it asked 28 banks to outline their policies and programs in the areas of climate strategy, financing the transition toward a low-carbon economy and risk management.

The key findings of the report include the fact that

– 70 percent of the responding banks calculate carbon footprints or make environmental impact assessments (which are not necessarily related to the financed projects, however) , and

– more than 80 percent of banks state that climate risks are an issue warranting discussion at the board level.

Moreover, the study states the value of carbon-intensive and high-risk projects financed by European and US banks over the past three years that could potentially become stranded assets as $786 billion. 50 percent of the banks responded that they have made the compensation of senior executives dependent on climate strategy goals. However, less than 15 percent of banks reported subsequently using the results of environmental assessments as a basis for future (lending) decisions, for example with regard to objectives for their energy portfolios or specific environmental assessments for carbon-intensive sectors.

The key takeaway of the report is therefore that banks are moving in the right direction, but not swiftly enough in light of rapidly changing risks. The publication does not give any negative examples, but highlights the banks that have shown positive developments. 17 of the 28 banks were named; Deutsche Bank was not among them.

Slight progress at Deutsche Bank as well

It is possible that report was published too soon for Deutsche Bank, as the research was completed in October and November 2016. In late January 2017, numerous media reported

that the bank was planning a partial phase-out of coal financing. According to urgewald's analysis, however, the new policy can only be a beginning. At best, it means that the bank will be significantly less active in the coal sector. Deutsche Bank wants to reduce its exposure to coal by 20 percent over the next three years. It does not intend to provide project financing for new coal power plants or new mines for power plant coal. The problem with this, however, is that most of the projects are funded indirectly through corporate loans and bonds. Here, Deutsche Bank plays a central role as a financier of the coal industry. The new policy will not change anything with regard to this form of coal financing. The problem becomes apparent with a closer look at the Deutsche Bank portfolio. For example, KEPCO of South Korea and the Indian NTPC Group are major customers. Both are planning and building coal power plants around the world with a total capacity greater than the entire German coal power plant fleet (around 48 GW). NTPC alone is responsible for the construction of coal power plants with an output of more than 37 GW, putting it in seventh place worldwide. KEPCO is also building power plants in countries such as Vietnam and the Philippines that are currently experiencing a real coal boom, thus locking them into decades of dependence on coal.

Deutsche Bank is still lagging

Other European banks have come a lot further. The French bank Natixis, for example, already rules out corporate loans to companies for which coal power stations or coal mining make up more than 50% of their business. KBC, ING, Crédit Agricole and HSBC have introduced similar exclusion criteria. As an implementing entity of the Green Climate Fund, Deutsche Bank has taken baby steps in the right direction, but still has a long way to go.

Source: German climate finance