NET ZERO DELIVERY SUMMIT
FINANCE ENABLING INNOVATION

CITY OF LONDON

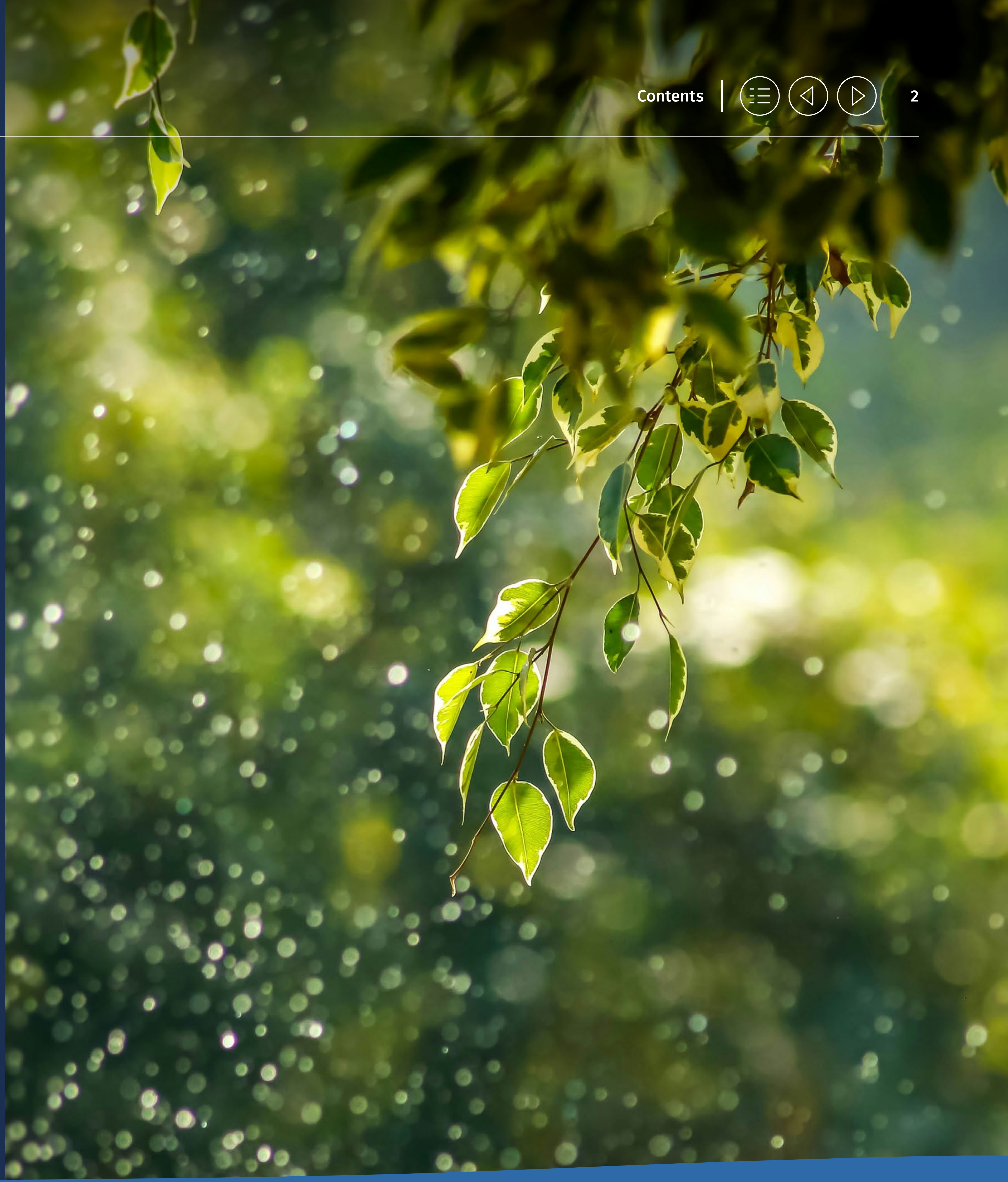
From commitment to action: tracking UK financial services' progress on the pathway to net zero

June 2024

in partnership with

CLIMATE POLICY INITIATIVE

Contents



Foreword

Michael Mainelli

Rt Hon the Lord Mayor of the City of London

“If we are to reach our net zero goals by 2050, then we must connect to prosper and create a supportive environment for innovation across all areas of the economy. Private finance has a critical role to play in enabling innovation, and the UK has a strong track record as a global hub for innovation in sustainable finance. Given this, it is important that the UK demonstrates transparency in our progress and our contribution to financing the transition. My ambition for this second iteration of *From commitment to action* is for financial services organisations globally to take stock of where they are on the pathway to net zero, and seek creative and collaborative responses where we fall short.”

Chris Hayward

Policy Chairman of the City of London Corporation

“The transition to net zero presents significant opportunities for the financial and professional services sector. Opportunities to scale new, high-integrity markets in carbon and nature finance. Opportunities to strengthen sustainable finance as a central part of the sector’s future. And, as our Vision for Economic Growth outlines, crucial opportunities to accelerate finance for the transition. One year on from the first iteration of *From commitment to action*, we should celebrate the progress financial institutions globally have made, while continuing to seize opportunities to direct capital at pace and scale to finance the transition.”

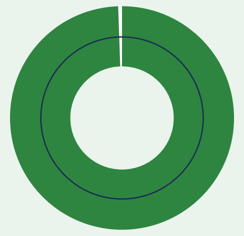
Key findings

This report covers members of the various Glasgow Finance Alliance for Net Zero coalitions across five countries with large global financial centres: the UK, the US, France, Germany, and Japan. It draws on preliminary data from Climate Policy Initiative’s Net Zero Finance Tracker 2024 upcoming release.

Across the five key global financial centres:

59%

Project-level green finance by financial institutions in our dataset grew by 59% between 2022 and 2023.



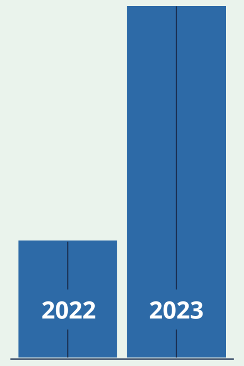
~100%

Almost all organisations across all jurisdictions included in our study had a net zero target in place by the end of 2022, with few new commitments in 2023.

45%

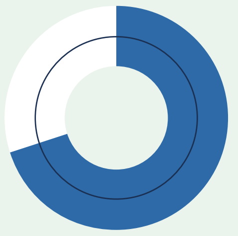
On average, 45% of financial institutions with a net zero target have considered climate risks and opportunities in their strategy and financial planning.

At UK level:



x3

UK financial institutions’ project-level green finance amounted to USD 2.3bn in 2023, almost three times the value in 2022.



70%

By 2023, half of the tracked UK financial institutions disclosing the level of portfolio coverage had set targets covering more than 70% of invested assets.

Largest increase

The UK saw the largest increase in the number of new financial institutions integrating climate risks and opportunities in their strategy and financial planning.

Introduction

Significant progress has been made in the transition to net zero both in the UK and globally, with financial services firms continuing to ramp up efforts to address climate change. With an increasing share of organisations now having formal climate commitments in place, attention is shifting to implementing these commitments and ensuring they are having the impact we need to finance the transition to net zero.

Climate Policy Initiative (CPI) estimated that at least $6tn[1] will be required globally in annual climate finance through 2050 to limit temperature increase to well below 2C, and avoid the worst impacts of climate change. In light of this, it is clear that public sector finance alone will not be sufficient to fill the funding gap we face. Private capital can and must play a critical role if we are to achieve our climate goals. For this reason, the implementation and impact of the financial sector's climate commitments are of paramount importance and critical to the delivery of the Paris Agreement.

This is the second iteration of *From Commitment to Action* developed for the Net Zero Delivery Summit, tracking progress of financial services firms' net zero commitments in both the UK and globally. Produced jointly by CPI and the City of London Corporation, the report assesses where financial services' progress on the pathway to net zero has been strong, where it continues to fall short, and what this means for future climate action.

The analysis tracks progress on net zero commitments using selected indicators across three key dimensions:

- **Targets:** The extent to which financial services firms are setting transparent, externally validated targets to achieve net zero.
- **Implementation:** Whether firms are incorporating climate considerations into their decision-making processes.
- **Impact:** Whether investment flows are targeting climate solutions.

The study is based on preliminary data from CPI's Net Zero Finance Tracker 2024 upcoming release.[2] It covers financial institutions that are members of the various Glasgow Finance Alliance for Net Zero (GFANZ) coalitions – the largest alliance of financial institutions committed to transitioning the global economy to net zero greenhouse gas emissions. It focuses on five countries with large global financial centres: the UK, the US, France, Germany, and Japan.[3]

The table below provides more details on the number and size of organisations in our datasets. For all financial centres included in our analysis, the total assets managed or owned by the tracked entities represented at least a third of the financial market in each country.[4]

While the Net Zero Finance Tracker currently focuses on GFANZ members – entities committed to climate action – the aim is to broaden its scope in future to provide a more comprehensive assessment covering the UK financial services industry as a whole.

Table 1: Dataset overview

Country	Number of entities	Assets (USD tn)[5]
United Kingdom	126	9.9
United States	86	24
France	37	11.1
Germany	27	5.4
Japan	22	9.4

1. Progress in setting net zero targets

Key findings:

1. By 2022, almost all financial institutions across the global financial centres in our dataset had set net zero targets. Few new targets were set in 2023, with most progress seen between 2020 and 2022.

2. Transparency surrounding these targets has improved, including on the level of portfolio coverage. Further, by 2023, half of the tracked UK financial institutions disclosing the level of portfolio coverage had set targets covering more than 70% of invested assets.

3. External validation of net zero targets, which can be a key tool to verify that targets are science-based, remains low across all jurisdictions as standards remain under development.

By the end of 2022, almost all GFANZ financial institutions had adopted some form of long-term net zero target (i.e. a target for the period 2030-2050, see Figure 1). Most of these commitments were made between 2020 and 2022, with few new targets set in 2023. The same trend applies to short-term targets (targets with either a 2025 or 2030 date). This is to be expected, as firms have generally completed their target setting phase and have now shifted focus to delivery against their commitments.

Ongoing advancements can be observed in transparency surrounding the goals set and the type of information that is publicly disclosed by the entities tracked. This includes the methodology used for the calculation of net zero-aligned targets, as well as the share of the portfolio covered by mitigation targets.

Figure 2 shows the number of financial actors which have publicly disclosed the share of their investment portfolio that is covered by a net zero target. From 2020 to 2023 we observe significant improvements in almost all jurisdictions tracked, with an ever-growing number of UK institutions making this information publicly available – from fewer than 10 in 2020 to over 60 in 2023. This insight is crucial to understanding the proportion of the financial system in each financial centre which is on track to achieve net zero.

Critically, by 2023, half of UK institutions disclosing this information had each set a target that covered more than 70% of their invested assets. In comparison, half of institutions tracked in France had set targets covering 60% of their portfolios, while half the institutions in US and Japan had targets with 50% portfolio coverage.[6]

Despite improvements in firms' transparency on their net zero commitments, external validation that targets are aligned with the Paris Agreement remains low. Few tracked entities across all global financial centres had targets verified by the Science-Based Targets initiative (SBTi), for example. The relatively slow pace of financial institutions verification is likely due to various reasons including the fact that specific SBTi guidelines for financial institutions were developed only in 2020, and that the standard setting bodies' Financial Institutions Net-Zero Standard remains under development.[7]

In addition to this, there remain ongoing technical and operational challenges that financial institutions face in measuring financed (scope 3) emissions. It is important that as the required standards develop, and data availability improves, we continue to see upwards trends in the number of financial institutions verifying that their targets are Paris aligned.

Figure 1: Share of tracked financial institutions that have adopted a net zero target[8]

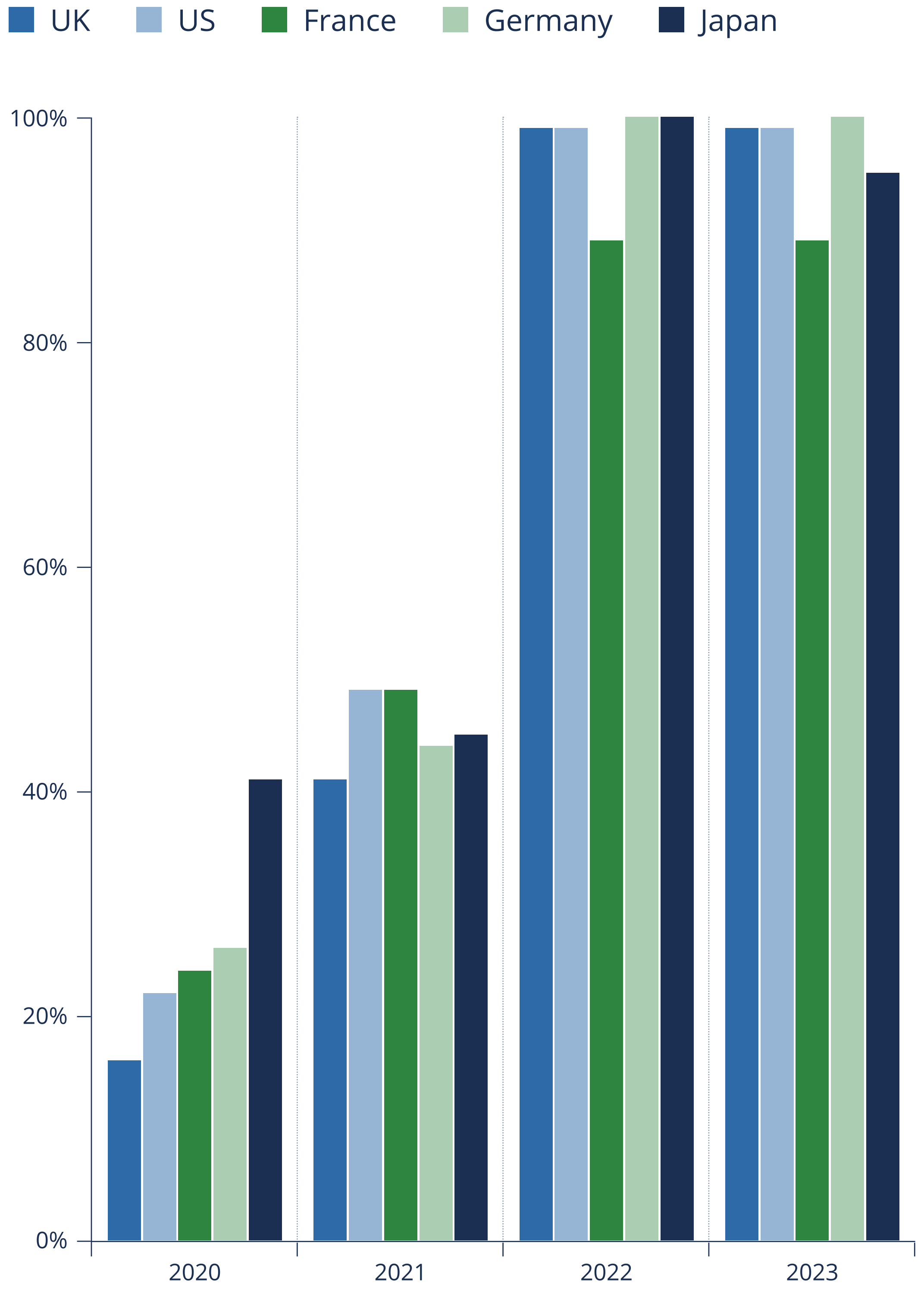
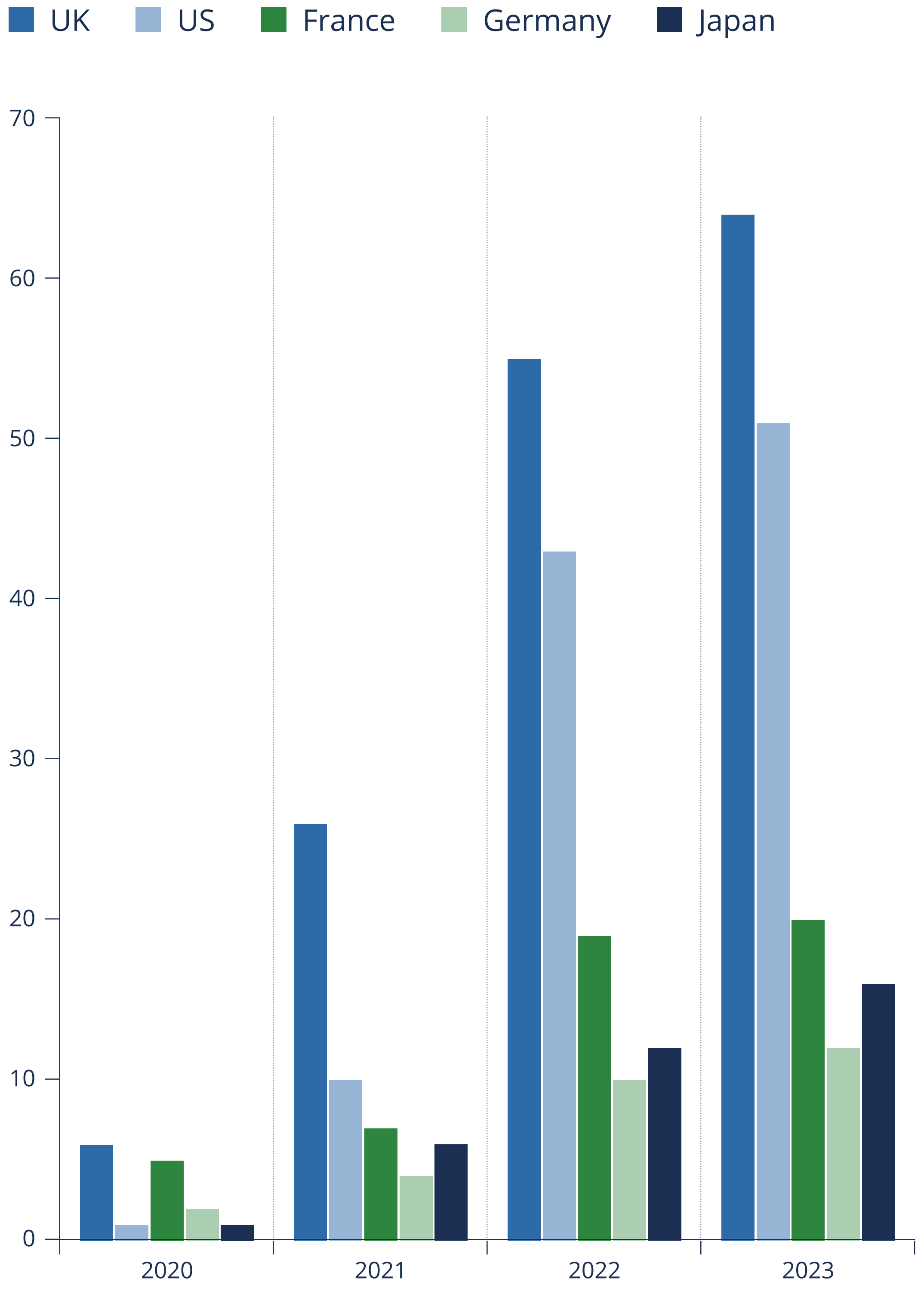


Figure 2: Number of tracked financial institutions disclosing the share of their investment portfolio subject to a mitigation target



2. The ongoing implementation of net zero targets

Key findings:

1. Across most financial centres, financial institutions have been slow to integrate climate risks and opportunities in their strategies and financial planning, although the UK saw the largest increase.

2. Integration of climate risks and opportunities lags behind target setting – on average 45% of tracked financial institutions with net zero targets have done so.

3. Similar trends are observed for organisations' use of climate scenario analysis, although the UK did see an increase from 50 to 73 firms between 2020 and 2023 utilising this tool.

Consideration of climate risks, opportunities and scenarios in a financial institution's strategy is important for the implementation of net zero targets, because it enhances the alignment of current and future capital with the commitments made.[9]

Figure 3 shows that the number of financial institutions considering the impact of climate risks and opportunities in their strategies remains low across most jurisdictions.[10] The UK has been the sole country to make steady progress on this, rising from 39 firms in 2021 to 51 in 2023, compared to a change from 32 to 34 in the US over the same period. This is partly due to the UK's early mandating of publicly quoted companies, large private companies, and LLPs to make disclosures aligned with the Task Force on Climate-Related Financial Disclosures (TCFD).

Nevertheless, we find that strategic consideration of climate risks and opportunities lags considerably behind target setting – on average, 45% of financial institutions in our selected jurisdictions with a net zero target reported having considered climate risks and opportunities in their strategic and financial planning.

Similarly, slow progress was found among institutions in our dataset on the use of climate scenarios to inform strategy (Figure 4). This is an important step in integrating climate risks and opportunities into strategy, as it can help organisations to understand their resilience and likely performance under different potential climate scenarios. Between 2020 and 2023, the number of UK financial institutions found to have disclosed their use of climate scenarios rose from 50 to 73, followed by the US rising from 41 to 54, and France from 22 to 25.

In short, trends observed show relatively slow progress in the integration of climate considerations in organisations' strategy and financial planning, as well as the use of climate scenarios. These findings align with a 2022 study by the UK Financial Conduct Authority indicating that challenges remain in fully implementing the quantitative elements of climate analysis and disclosure, such as scenario analysis, which are required to underpin net zero strategies.[11] While the FCA was looking at UK firms, such findings would likely apply across all jurisdictions covered in this study.

Figure 3: Number of tracked financial institutions considering the impact of climate risks and opportunities in their strategic or financial planning

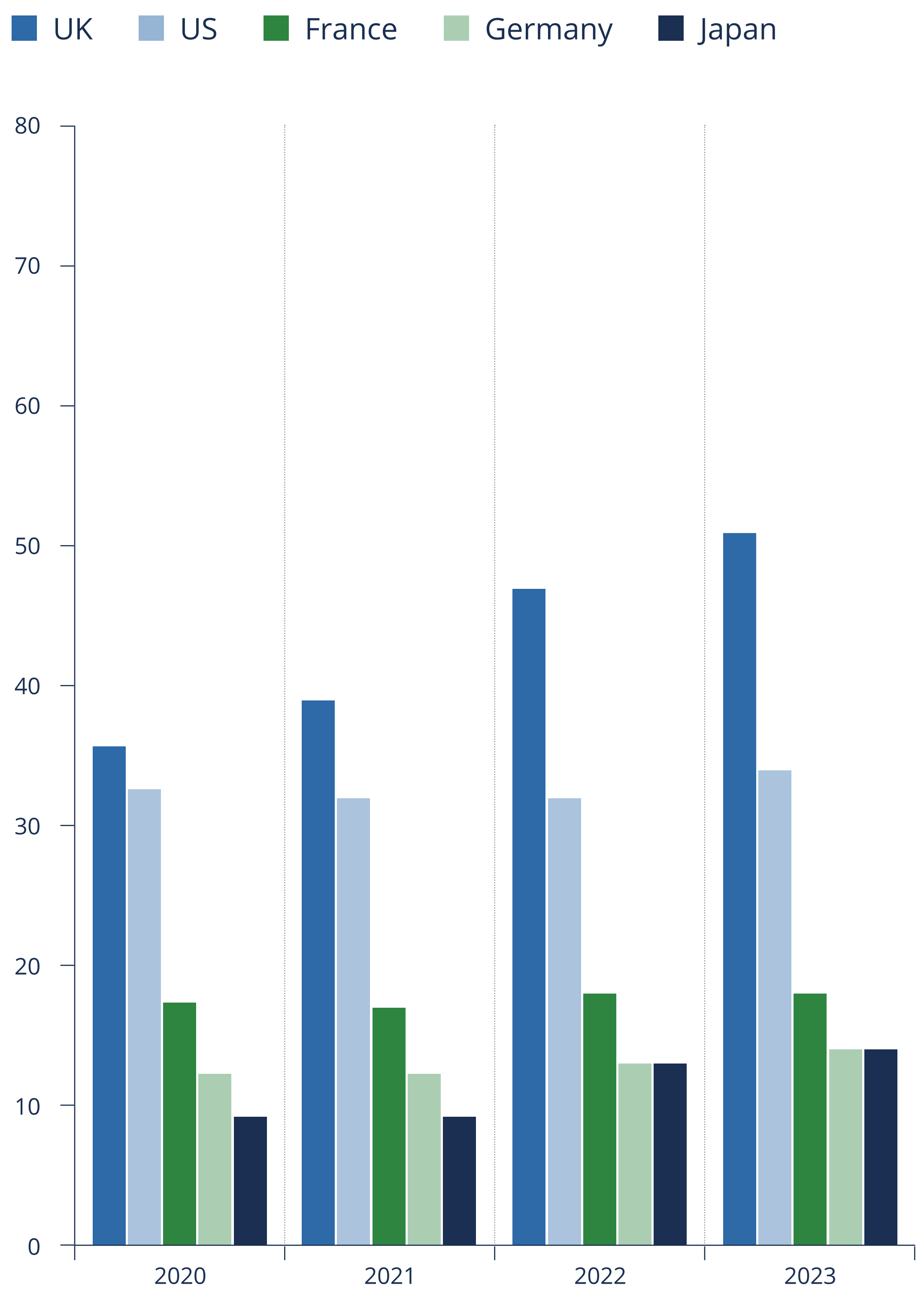
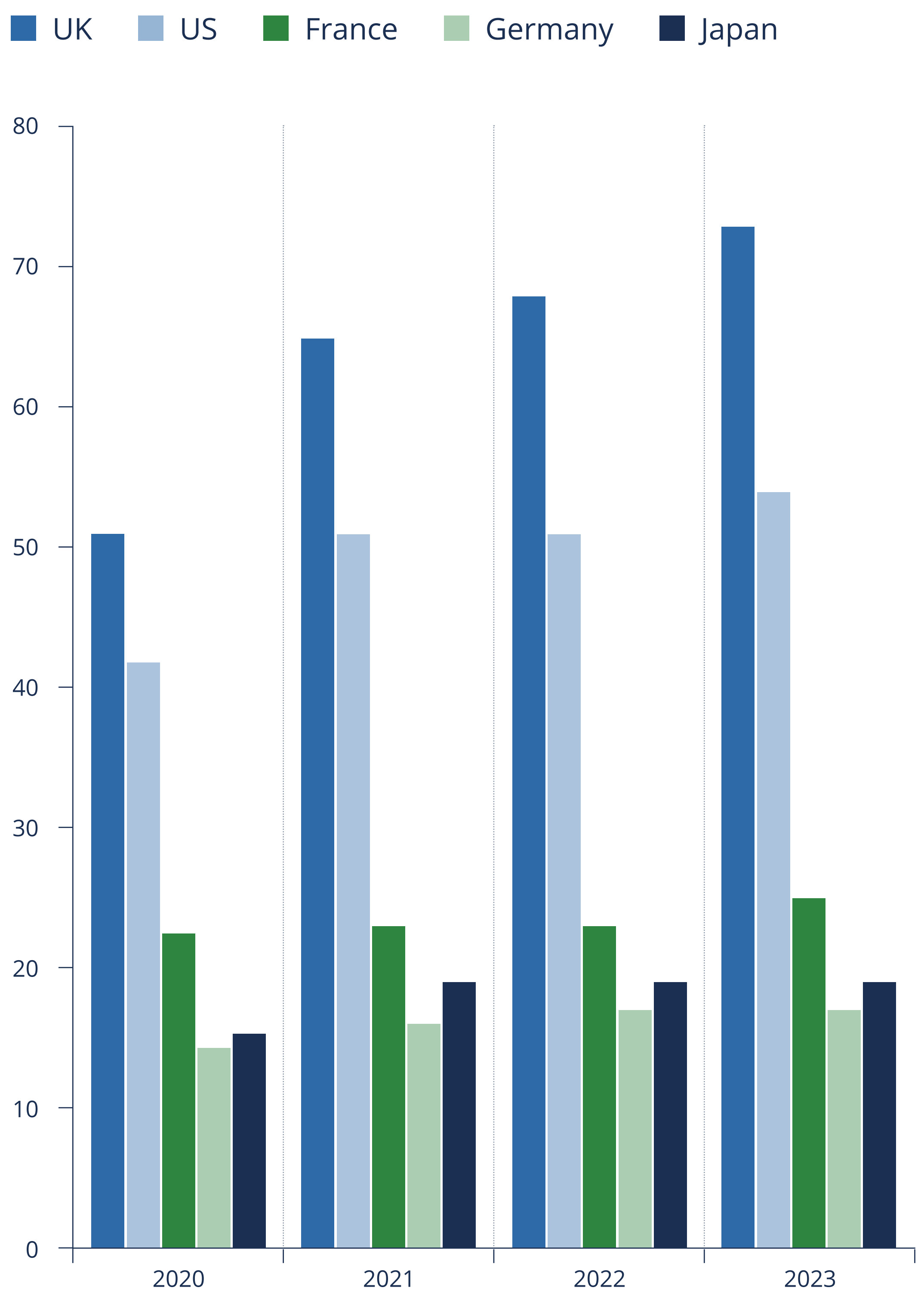


Figure 4: Number of tracked financial institutions using climate scenarios to inform their strategy



3. Progress in financing climate solutions

Key findings:

1. Annual project-level green finance from the financial institutions in our dataset grew by 59% between 2022 and 2023.

2. UK financial institutions' project-level green finance amounted to USD 2.3bn in 2023, almost three times the value in 2022, placing it second only to France on this metric.

3. However, the UK is behind other jurisdictions on green bonds and loans, with France leading the pack followed by the US.

We have taken investment in clean energy projects, green bonds, and green loans, as one measure of the impact that target setting and implementation action have on the deployment of capital for the achievement of net zero. It is important to note that this investment represents just part of the spectrum of capital needed to reach net zero, with transition finance (e.g. support for the decarbonisation of hard-to-abate-sectors) also having a critical role to play.[12]

The UK is undertaking important work in this domain, with an ongoing Transition Finance Market Review, commissioned to build on the work of the Transition Plan Taskforce. As more data becomes available, we hope in future iterations of this report to be able to track whether investment flows are targeting not just climate solutions, but transition finance too.

Figure 5 highlights the evolution of clean-energy project-level financing from 2020 to 2023 (defined as direct project-level financing in renewable energy infrastructure, energy storage, carbon capture and storage, power grids, and nuclear power).[13]

Total project-level investment in clean energy from all of the tracked financial institutions reached USD 11.5bn in 2023, representing approximately 14% of overall clean-energy investment originated in those countries.[14] This marks growth of 59% between 2022 and 2023, while preliminary data shows that global investment in clean energy plateaued over the same period. All institutions across all years provided the vast majority of their project finance as market-rate debt. Wind, solar, and energy storage projects represented more than 80% of the total investments tracked in 2023.

Clean energy investment from tracked UK entities in 2023 amounted to USD 2.3bn, almost triple its 2022 investment. This represents 20% of total project-level clean energy investment originated in the UK in 2023. This placed the UK second only to France (which invested USD 5.2bn) in terms of clean-energy investment in 2023.[15]

Figure 5: Annual clean-energy project-level financing for tracked financial institutions (in USDm)

Investments in fossil-fuel projects remain significant, with total project-level financing from tracked financial institutions reaching USD 9.6bn in 2023 (9% of the overall financing in fossil-fuel projects observed in the same jurisdictions in 2023). This, however, marked a decrease of 32% compared to 2022, in line with similar rates of reduction observed in preliminary data on global project-level fossil fuel investment over the same period.

Moving away from direct project finance and focusing on other forms of sustainable finance, we observe a 32% increase in green lending and bond underwriting by the financial institutions in the dataset from USD 12.1bn in 2022 to USD 16bn in 2023. This is a higher rate than the global 11% growth observed over the same period. However, this number (USD 16bn) remains 20% below that achieved by the same set of institutions in 2021.

UK financial institutions contributed only 3% (USD 0.4bn) to the overall green lending observed for the tracked institutions. France provided the lion's share with 43% of total green lending (USD 6.9bn), followed by the US with 25% (USD 4.0bn),[16] Japan with 18% (USD 2.8bn), and Germany with 11% (USD 1.8bn).

Table 2: Green investment flows for tracked financial institutions in 2023 (USD bn)

Country	Green (clean energy) project-level financing	Green bonds and loans
United Kingdom	2.3	0.4
United States	1.5	4.0
France	5.2	6.9
Germany	1.2	1.8
Japan	1.3	2.8

Table 3: Green investment flows for tracked financial institutions, YoY % change, 2022-2023

Country	Green (clean energy) project-level financing	Green bonds and loans
United Kingdom	192%	-69%
United States	22%	230%
France	62%	94%
Germany	26%	-46%
Japan	21%	11%

Conclusion

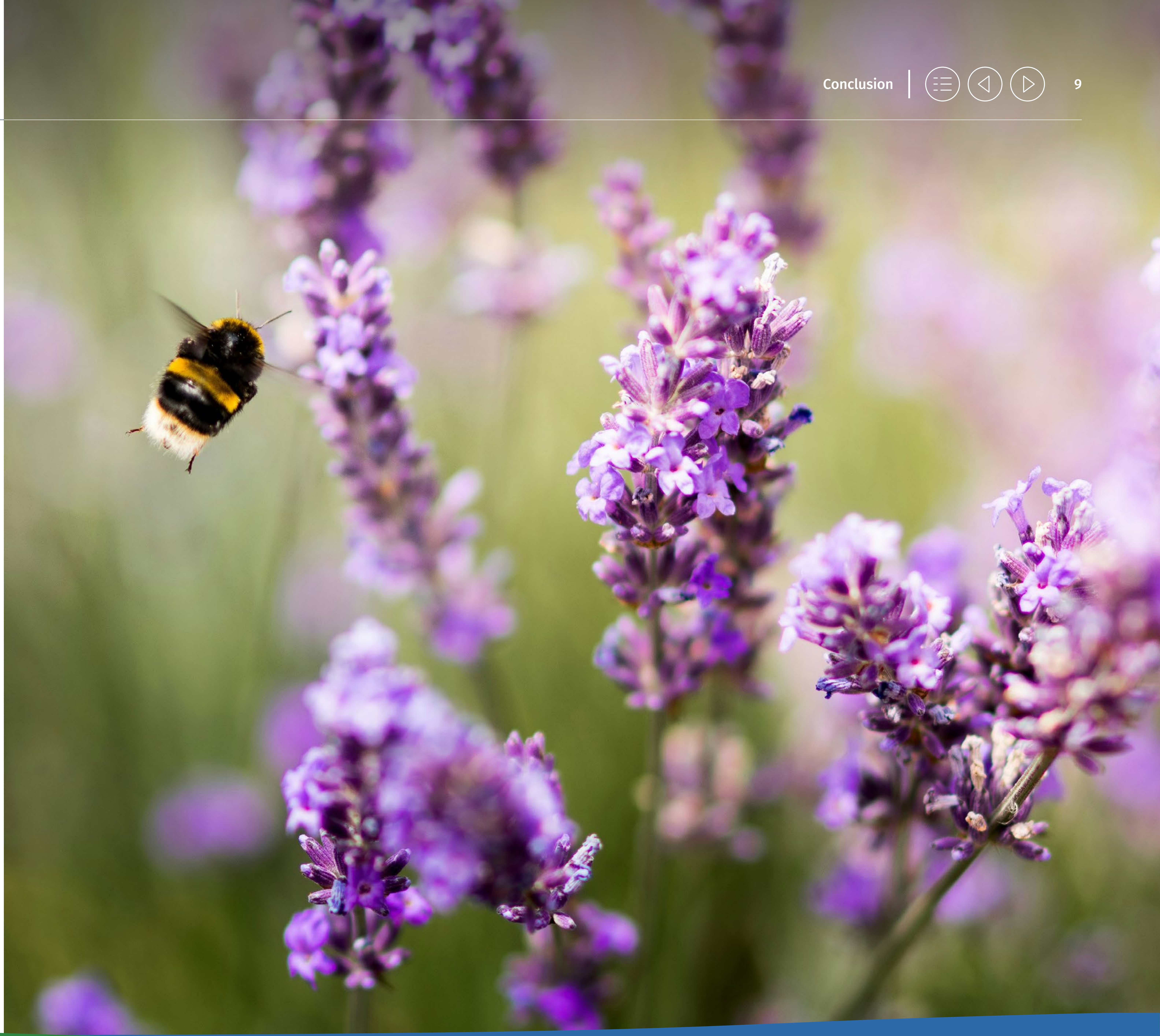
As financial institutions progress along the journey towards net zero, it is critical to ensure that climate commitments are translating into action and, ultimately, that more capital is being directed to finance the transition.

Most financial institutions across the five key financial centres analysed in this report have already set net zero targets. Further, we have seen strong progress in the transparency surrounding what underpins these targets, including on the level of portfolio coverage. Going forward, it is important to continue to track the external validation of these targets as the necessary standards evolve.

There is also work to do to see that these targets translate into meaningful strategic and financial planning across institutions, to guide the deployment of capital. This includes quantifying climate-related risks and opportunities to inform strategic and financial planning – not just identifying them. Over time, this must be translated into portfolio investment decisions.

But most importantly, we must ensure that more capital is being directed to finance the transition. And while project-level green finance investment continues to increase, questions remain over the pace and scale of capital being deployed. Meanwhile, transition pathways and transition finance are key components where urgent progress is necessary.

Using all financing tools at our disposal, as well as ensuring an environment supportive of innovation, will be critical to reach net zero by mid-century. This year's Net Zero Delivery Summit has therefore placed innovation,, and in particular the role of finance in enabling innovation, at the heart of the agenda.



Endnotes

1. CPI (2023) Global Landscape of Climate Finance 2023 https://www.climatepolicyinitiative.org/publication/global-landscape-of-climate-finance-2023/
2. The Net Zero Finance Tracker (NZFT) provides a comprehensive assessment of how public and private finance institutions are progressing on Paris Agreement goals and delivering net zero impact on the ground. The dashboard captures, standardises, and assesses action across multiple data sources—including CDP, PRI, InfluenceMap and many others— offering the most comprehensive coverage of large financial institutions. For more details on CPI's Net Zero Finance Tracker and methodology, please see https://netzerofinancetracker.climatepolicyinitiative.org/
3. The original sample considered 7 countries (the UK, US, France, Germany, Japan, Hong Kong and Singapore), which are included in the City of London's annual benchmarking report of the competitiveness of major global financial centres https://www.theglobalcity.uk/PositiveWebsite/media/Research-reports/Our-global-offer-to-business-2024.pdf . Hong Kong and Singapore were excluded as the sample was too small – the number of institutions which were GFANZ signatories was below 10 in each of these countries, representing less than 5% of their respective financial markets.
4. Estimates of the size of the financial market used in this calculation were drawn from a variety of sources, including Statista, Bankrate, Monetary Authority of Singapore, Mordor Intelligence, ClearWater Analytics, Yahoo Finance, Etudes Eco, Fintech Futures.
5. This includes assets managed or owned by the dataset entities, tracked where that information is available.
6. The percentages for portfolio coverage are based on median share.
7. https://sciencebasedtargets.org/sectors/financial-institutions
8. A commitment made by a financial institution to reduce its greenhouse gas emissions to net zero, including long-term targets for the years 2030-2050. Mitigation targets are here counted independently of the emissions scopes they encompass.
9. The Net Zero Finance Tracker includes a broader range of areas under the implementation dimension, such as institution policies, governance, and investment approaches that may influence future or current capital alignment with net zero. For the purposes of this study, we selected a few indicators focused on the integration of climate risks and opportunities at strategy level.
10. This indicator tracks whether the organisations have identified any risks or opportunities with possible implications on strategy and products, and/or whether there is evidence that risk and opportunities have been at least qualitatively integrated in strategy or business planning. Sources include CDP (2023), FinanceMap (2023), and PRI (2021).
11. FCA (2022) Review of TCFD-aligned disclosures by premium listed commercial companies.
12. The latest Climate Bonds Initiative report on sustainable debt shows that while transition finance instruments like (aligned) Sustainability-Linked Bonds currently only represent 2% of the 2023 sustainable debt volume, its issuance increased by 83% in the last year, showing the potential for this market to grow as well as the increasing demand for transition finance products. Climate Bonds Initiative (2024). Sustainable debt: Global state of the market. https://www.climatebonds.net/files/reports/cbi_sotm23.pdf
13. For a full list of solutions tracked, please refer to the Net Zero Finance Tracker methodology, available at: https://www.climatepolicyinitiative.org/wp-content/uploads/2023/10/NZFT-Methodology.pdf
14. The remaining 86% is primarily financed by real economy actors such as corporates, project developers, utilities, and public financial institutions such as national and multilateral development banks.
15. It is important to note that variations in magnitude are driven also by the size of the sample considered, which varies from country to country.
16. It is worth noting that while the US' Inflation Reduction Act is expected to drive a significant increase in sustainable investment, 2023 was largely focused on planning. Therefore, its impact is unlikely to be reflected in our 2023 data. 2024 will see a transition from planning to implementation. Mc Kinsey (2024) The Inflation Reduction Act: Here what's in it. https://www.mckinsey.com/industries/public-sector/our-insights/the-inflation-reduction-act-heres-whats-in-it

About the Global City campaign

The Global City campaign is the City of London Corporation's overarching initiative to promote the UK as a world-leading international financial centre. It showcases the UK as a great place for financial and professional services firms to invest, locate and grow.

theglobalcity.uk

About the City of London Corporation

The City of London Corporation is the governing body of the Square Mile dedicated to a vibrant and thriving City, supporting a diverse and sustainable London within a globally successful UK.

We aim to:

– Contribute to a flourishing society
– Support a thriving economy
– Shape outstanding environments

By strengthening the connections, capacity and character of the City, London and the UK for the benefit of people who live, work and visit here.

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About Climate Policy Initiative

CPI is an analysis and advisory organisation with deep expertise in finance and policy. Our mission is to help governments, businesses, and financial institutions drive economic growth while addressing climate change. CPI has six offices around the world in Brazil, India, Indonesia, the United Kingdom, and the United States. An important part of CPI's work is developing analysis and tools to ensure public and private efforts on Paris Agreement targets are feasible, of integrity, and scalable. CPI's work in this area includes the Framework for Sustainable Finance Integrity and the Net Zero Finance Tracker.

climatepolicyinitiative.org

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