COLLECTIVE
INTELLIGENCE

Keeping Pace with Climate Risk and Opportunity

Financial industry views from New York Climate Week

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Brunswick convened and attended high-level discussions during Climate Week on the financial industries' role in the climate transition, including our private dinner for 15 heads of sustainable investment, climate strategy and corporate affairs; an energy transition briefing attended by 110 analysts; and private finance forums hosted by the Glasgow Financial Alliance for Net Zero (GFANZ) and the UN Climate Change High-Level Champion for COP28.

This note captures reflections from those in attendance, and industry views on the most material developments announced throughout the week as focus intensifies on the role of finance in the climate transition.

Industry Developments

1. **The energy transition is happening faster than we realize.** New data by Rocky Mountain Institute (RMI) shows that electric vehicle sales are growing at a rate of 60% per year. RMI estimates that by 2030, electric cars will be cheaper than gasoline cars in every major market, putting nearly a quarter of worldwide oil demand at risk. Goldman Sachs also noted during the conference that "the Inflation Reduction Act will cut the cost of abatement in the US by 75% and make a wide spectrum of new low-carbon technologies competitive for the first time." And former US Vice President Al Gore reminded the audience at another event that over 80% of new power generation capacity installed in 2022 was renewable.

2. **The US Treasury is doing more to encourage the financial industry's net-zero transition plans.** Treasury Secretary Janet Yellen announced new voluntary guidance for banks and investors on net zero. The nine principles reinforce the importance of credible targets, plans and practices to increase clean energy investment and align capital with the economic opportunity associated with the transition, estimated by the Treasury at $3.5 trillion annually. Intentionally mirroring GFANZ – which has become the industry standard for credible action on climate – the move appears designed to strengthen financial institutions' resolve on net zero in the face of the ESG backlash and mainstream industry adoption.

3. **New tools are emerging to combat compounding financial risk from nature risk.** The launch of the Taskforce on Nature-Related Financial Disclosures (TNFD) reinforces the G20-backed reporting framework on climate risks and aims to provide a consistent approach across the financial sector for action on nature. The guidance responds to growing demand from shareholders and regulators for data on how businesses impact, and are impacted by, rapidly deteriorating natural ecosystems that threaten economic and human health and magnify climate risk. Mary Schapiro,

GFANZ vice chair, said that “there is no corporate or global net zero without arresting nature loss. Transition plans that don’t account for nature are incomplete.”

Six considerations for financial institutions

1. **Keep pace with the financial opportunities and risks.** Financial institutions at Climate Week were clear that engaging in the energy transition is about fiduciary obligation: stranded assets, outdated business models and supply chain disruption due to worsening physical climate impacts. There are opportunities to invest in a rapidly growing clean energy economy that meet customer demand for lower carbon financing products and can generate consistent returns for shareholders. A recurring theme among senior industry players was how to scale that growth. The pace of change will accelerate as hundreds of billions of dollars in incentives in the US Inflation Reduction Act and EU Net Zero Industry and Repower EU schemes are deployed.

2. **Focus on real economy decarbonization.** There was broad consensus that the animating goal must be absolute emissions reductions across sectors, not only net-zero portfolios via divestment, which simply shifts the emissions onto someone else’s balance sheet. Emerging best-practice transition planning guidance is now consistent in promoting strategies that can achieve a whole-of-economy transition. Financial institutions are reaching for inventive ways to help clients who can transition to do so – with incentives to reward leaders, but also red lines and exclusions to disincentivize laggards – while scaling up lower carbon technologies. They are also considering how to finance the carbon credit and removal market, which is fragmented and fraught with early-stage investment risks, but also central to many companies’ science-based targets and net-zero pathways.

3. **Set granular, near-term targets.** Many financial institutions are grappling with how to define near-term pathways toward long-term net-zero goals that are consistent with science, reflect the latest transition data and account for industry-specific regional differences. The age of exuberance on 2050 ambitions has ended, and the focus now is on granular targets at asset class and sector level. The recognition of that transition looks very different from private credit to public equities, and from a traditional asset manager to a private equity investor. It will be important for financial institutions to set these targets and plan for a range of transition scenarios while building trust through transparency.

4. **Account for nature risk.** With rising concern about the parallel and reinforcing biodiversity crisis, there is growing recognition that nature compounds climate as a financial risk and opportunity facing companies. Last week’s launch of the TNFD voluntary framework provides business and financial institutions with the tools to measure, manage and reduce their nature-related risks and contribute positively to a net-zero, nature-positive economy. TNFD comes at a crucial time as financial institutions reckon with the fact that the transition in the food- and land-use system is as pressing as the energy transition.

5. **Define a future story of climate competitiveness.** Banks and investors are increasingly anchoring their narrative and engagement with clients on climate on the ability to drive superior, long-term, risk-adjusted financial returns. As the economic opportunities of the transition become clear, the concept of transition plans is expanding: from a technical disclosure product to a platform for corporates to set out their future growth story, and to enable clients to be successful in the transition. As HSBC CEO Noel Quinn put it: “The climate transition plan is important because it mobilizes. It mobilizes customers, investors and 200,000 employees. It creates pride and purpose. And as a forward-looking narrative of whether a company is ready for economy-wide changes, it will become as important as the annual report.”

6. **Build multistakeholder support in a challenging context.** Financial institutions are grappling with how to meet the range of stakeholder interest in their transition plans. That includes aligning with new and forthcoming regulatory norms across geographies, especially in the EU, the US, and California, as well as establishing credibility with environmental nongovernmental organizations while striking a tone with customers and clients that's focused on financial performance. The challenge isn't limited to balancing external audience needs. Companies are also learning how essential it is to build internal buy-in across the business and with the board.

To continue the conversation

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