

20

The number of Green Banks within the United States. These are institutions dedicated to financing climate-related projects.

JULY
2
2020

Launch of the Center for Climate-Aligned Finance in collaboration with four of the world's largest financial institutions. The Center's mission is to help the financial sector transition the global economy toward a net-zero carbon future.

"As we develop our understanding of how best to assess the impact of climate change on the financial system, we look forward to continuing and deepening our discussions with our... colleagues from around the world."

Jerome H. Powell, chair of the Federal Reserve Board. The Fed formally joined the Network of Central Banks and Supervisors for Greening the Financial System in December 2020.

Preparing a response to a looming crisis

The banking industry is no stranger to crisis. From the Great Depression's collapse of the financial system to the ag crisis of the 1980s to the housing crisis of 2008/2009... each era has brought about major — and permanent — changes to banking regulations.

Now it seems we are on the precipice of a crisis again: Climate change. The difference here is that we are looking at outcomes that will take place over the next several decades, instead of those that have a swift impact as in crises of the past. With the Biden administration targeting a 50 percent reduction of greenhouse gas pollution by 2030 and more than half of U.S. states already enacting environmental standards that exceed those of the federal government the question becomes a question of when — not if — banks will begin to face regulations related to climate change.

Right now, the unknown is how the financial industry will be impacted. Advisors and thought leaders have speculated everything from the opportunities presented by financing green energy production to the balance sheet risks from climate-related havoc wreaked on real estate and crops. Climate-risk "stress tests" are already in the works from some financial services regulators. Banks will face increasing pressure to protect themselves from the impact of climate change and formulate climate risk-management policies. As seen in our feature on page 10, some banks are already taking steps to align serving their customers with environmental considerations.

Even though we don't know exactly what is coming... it's coming. Banks would do well to start considering both the climate risks posed and anticipating what the regulators may begin to require. The lowest risk may come in the form of a transitional period when adoption of meaningful policies can make a difference. Otherwise, when the risk becomes physical and threatens the bank's assets, it may be too late. ♦

— Anna Burgess Yang

