



By: **Howard Davies**

Green Finance – How to resist the pressure from the US?



At the United Nations Climate Change Conference in Glasgow (COP26), back in 2021, Mark Carney bestrode the financial world like a colossus.

Now Canada's prime minister, thanks in large part to US President Donald Trump's call to make the country America's 51st state, in 2021 he was the UN Special Envoy for Climate Action and Finance.

At COP26, Carney announced the creation of the Glasgow Financial Alliance for Net Zero (GFANZ), the parent of three precocious children, the Net-Zero Banking Alliance (NZBA), the Net-Zero Insurance Alliance (NZIA), and the Net Zero Asset Managers (NZAM) initiative.

All that amounted to a whole lot of zeros, in the view of some sceptics, but Carney **assured** an expectant world that "It's not blah blah blah," and that net zero would form the "critical infrastructure of the new financial system."

So, how well has the Glasgow initiative aged? At which end of the critical infrastructure-blah blah blah spectrum do we find ourselves?

The biggest US banks pulled out of the NZBA

The intervening years have not been kind to the alphabet soup Carney cooked up.

At the beginning of this year, the biggest US banks – JP Morgan, Goldman Sachs, and the rest – **pulled** out of the NZBA, clearly fearing political pressure from Trump's new administration.

The big US banks were soon **followed** by the Canadian banks, showing little loyalty to their future prime minister's creation.

In April, the remaining members watered down the initial commitments, **focusing** on alignment with a maximum 2° Celsius temperature rise, rather than the long mooted

1.5°C, and abandoning the target of full net-zero compliance by 2050.

But that did not stem the flow of departures. Earlier this month, HSBC **announced** its defection, and it seems highly likely that others will do likewise.

Today the members represent only a little over half the assets of the founders

Today the members represent only a little over half the assets of the founders, but there are still some committed banks, and the NZBA remains alive.

That is more than can be said for its little sister, the NZIA. Even before Trump's election, some attorneys general from Republican-controlled states, raising concerns about collaborative climate pledges, had **targeted** the major members on antitrust grounds.

Their motives might have been rather different, but legally they had a point. The founders had not properly thought through the implications of the pledges they were making. After a spate of withdrawals, in April 2024 the NZIA collapsed.

There has been a **replacement** of sorts, in the form of the Forum for Insurance Transition to Net Zero. The forum's membership obligations are more flexible, and there are no targets or reporting obligations.

It also claims to have armed itself with in-house lawyers to guard against any potential future contraventions of antitrust law.

To complete the set, the third child, the NZAM, also **experienced** a spate of withdrawals in January, led by BlackRock.

That led to a **suspension** of its activities, and the removal of its published list of signatories. It is not clear when, if ever, the suspension will be lifted.

What about the parent?

We have accounted for the children, but what about the parent? GFANZ still technically exists, but has been substantially remodeled.

It now describes itself as an independent “Principals Group” with no pre-entry qualifications, and has shifted its focus from being a net-zero gatekeeper to becoming a facilitator of finance to fund the energy transition – a worthy task, but far from what was initially envisaged.

It is hard to see these developments, taken together, as anything other than a significant watering down of the financial sector’s commitment to supporting the green transition.

But where are the regulators, who were exerting pressure on their charges to step up and ensure that they were part of the climate-change solution, rather than being casualties of the problem?

If banks and insurers do not understand the implications, they may be adversely affected, adding financial instability to the other threats we face

The Network for Greening the Financial System (NGFS) was created by a coalition of eight willing central banks in 2017. The coalition included the United Kingdom, France, and China, but not the United States.

After Joe Biden’s election in 2020, the Federal Reserve, which prides itself on its political independence, decided to join, only to withdraw earlier this year.

But in this case, other central banks remain committed. Some, like the Bank of England, have de-emphasized their climate stress-tests, but NGFS members, now numbering some 140, still believe that rising average temperatures threaten economic disruption, and that the energy transition will create winners and

losers.

Recent **analysis** by the NGFS suggests that the economic risks are greater than previously thought.

If banks and insurers do not understand the implications, they may be adversely affected, adding financial instability to the other threats we face.

Where do we go from here?

It would be idle to imagine, though, that the rest of the world can continue as before. There are unmistakable signs that the US is putting pressure on international regulatory bodies to downgrade their climate-related work.

The last **communiqué** from the Financial Stability Board noted that “while many members feel there is a need for more work, some feel that the work completed to date is sufficient,” and it seems that the “some” have dominated the “many.”



The impact of global warming on the financial sector is growing relentlessly, but US resistance to any resulting action by firms or their regulators is becoming firmer

Similarly, the Basel Committee has downgraded its work on climate-related disclosures and removed any requirement to comply.

The Basel Committee did **refuse** a US request to disband its climate task force, but the US representatives reportedly simply do not turn up, which clearly impacts its effectiveness.

So, where do we go from here? All the scientific evidence suggests that the impact of global warming on the financial sector is growing relentlessly, but US resistance to any resulting action by firms or their regulators is becoming firmer.

The outcome of a clash between an irresistible force and an immovable object is notoriously hard to predict.

In this case, my bet is on the irresistible force. A bad outcome, perhaps first in the insurance world, will illustrate the importance of shoring up our defenses. But even then, non-US regulators need to keep up the pressure.

Howard Davies, the first chairman of the United Kingdom's Financial Services Authority (1997-2003), is Chairman of NatWest Group. He was Director of the London School of Economics (2003-11) and served as Deputy Governor of the Bank of England and Director-General of the Confederation of British Industry.