HOW CLIMATE CHANGE IS DISRUPTING THE BANKING SECTOR
Is climate change a major disruption for the banking sector?

Serrano: Absolutely, yes. Climate change is the most pressing global challenge today, and we are not tackling it fast enough. It is as disruptive to the banking industry as digital transformation. Climate change is particularly disruptive for the banking sector in terms of the risks that banks need to manage, the opportunities that it brings—especially in financing—and the responsibilities that banks face with their stakeholders.

In order to manage climate change and foster sustainable global growth in a 2°C compatible pathway, the investment gap is huge. Banks are at the center of most capital allocation decisions as public spending will not suffice to finance the green transformation. To increase green investments, we need to promote the standardization of green finance practices; enhance the transparency of information disclosing standards for carbon and environmental risks; support market development for green investments; and help countries in developing and implementing national sustainable finance roadmaps. Climate change is affecting our environment and the economy, and it will continue doing so in the decades to come. Climate change will force banks to change and adjust their business models.

Where is the banking sector in its transformation towards greener banks?

Ponce: Climate change is creating a major, although not yet sufficiently recognized, risk in the banking sector as banks are failing to prepare for the coming green regulation that will impact their borrowers. Although action has accelerated substantially during recent months, there is still a long way to go, and banks need to seriously start their transformational journey, moving from business as usual, to a new business model based on responsible banking and actively supporting climate finance. They will need to embed the outcomes of climate risk scenario analyses across their loan books. Talks around climate need to transform into more specific and fast actions. The issuance in the global green bond and green loan market has reached $257.7 bln in 2019, marking a new global record.

What are the main risks that banks face from climate change?

Serrano: The major risk that banks face is not realizing the severity of the disruption introduced by climate change and hence, not reacting to it. The main risks that the world will face the next decade are mostly environmental. Banks are exposed to several climate-related risks through the diverse range of sectors they finance. These risks are different in nature, due to the high level of uncertainty, the lack of historical data, etc. Banks face physical risks, derived from frequent severe weather events and lasting environmental changes, and transition risks, posed by the policy and technological changes necessary to achieve a greener economy. Uncertainties around climate change itself, regulatory changes and changing consumer patterns and preferences all add up to a complex environment.

What are the major opportunities for banks derived from climate change?

Serrano: Climate is good business. IFC found a $23 trillion in investment opportunity if 21 countries achieve their 2030 climate targets. IFC’s report “Creating Markets for Climate Business” identifies seven industry sectors that can make a crucial difference in catalyzing private investment: renewable energy, off-grid solar and energy storage, agribusiness, green buildings, urban transportation, water etc. Already, more than $1 trillion...
in investments are flowing into climate-related projects in these areas but trillions more can be triggered by creating the right business conditions in emerging markets. At $600 billion, climate finance has reached record levels in 2019 but action still falls far short of what is needed under a 2 °C scenario. Estimates of investment required to achieve the low-carbon transition range from $1.6 trillion to $3.8 trillion annually until 2050. Banks have already started to focus their attention on the commercial opportunities associated with lending and financial services that facilitate cleaner energy.

What about the relationship between banks and their different stakeholders?

Ponce: National policies and the markets in the region are starting to reflect the urgency of increasing finance for mitigation of and adaptation to the effects of climate change, as well as making all financial flows consistent with a pathway toward low-carbon and climate-resilient development. Banks are actively engaging with external actors on climate-related issues, including policymakers, trade associations and credit rating agencies. Banks’ shareholders and institutional investors are also demanding assurances that the right policies and regulations are in place for a smooth low carbon transition across the banking sector. It is not only in banks’ own interest to improve their climate-related performance but also in the interest of policymakers, legislators and banking supervisors. Investors are increasingly concerned about the lack of disclosure on climate-related risks. Clients are everyday more conscious of sustainability factors and they prefer banks which demonstrate that they committed to doing well by doing good.

What is IFC doing to support banks in transitioning to green banking and strengthening climate finance?

Serrano: We see climate change as a game changer for banks. Banks need to have a climate strategy and disclose their progress to the market. Banks need to define their vision and appetite for climate finance as well as create the necessary governance and allocate resources to support a new business model that embraces sustainability, and specifically climate finance. Since 2005 IFC has been working to create markets for climate business. In 2019, IFC’s climate investments totalled $2.6 billion, in 43 countries and mobilized $3.2 billion from other investors. IFC works with banks in upstream activities to facilitate the creation of green markets. For example, through our strategic alliance with the Latin American Federation of Banks we are “greening” the Latin American banking sector. Additionally, through our role on the Sustainable Banking Network—where 53 financial regulators and banking associations, from 38 countries, are members—we are committed to sustainable finance. IFC also works downstream with banks, providing green financing, advisory services and training to create “green bankers”. We offer a comprehensive set of solutions.

As one of the main barriers to mainstream green finance is the lack of knowledge and skills to understand the risks and opportunities of climate change, in 2018, we created the IFC Green Banking Academy (“IFC-GBAC”), which aims to accelerate the green transformation of the banking sector through training programs specifically designed and tailor-made for commercial bankers. IFC-GBAC is at present engaging on transformational processes with leading banks like Banco Davivienda (Colombia), or Fassil (Bolivia), and supporting others in the region.
As the threat of global warming and the effects of climate change continue, developing countries are taking steps to work towards reducing greenhouse gas emissions such as; investing in the development of renewable energy sources, switching to cleaner fuels, improving the efficiency of combustion processes, modifying consumption trends through environmental education, and implementing more efficient methods for construction, among others.

Bolivia is the second most vulnerable country in South America and the fifth least prepared to face the effects of climate change, according to an investigation by the ND-GAIN Country Index program. The effects of climate change—especially water scarcity—particularly affect activities in agriculture, power generation, mining, industry and ecosystems. Bolivia’s environmental vulnerability is due, among other reasons, to the existence in the country of variable ecosystems, increasing deforestation and a lack of scientific information to address the problem of climate change. In addition to this, the country is in a location prone to natural disasters.

Banco Fassil is developing strategic lines of action to address the institutional challenges over the next five years and build a Green Banking and Responsible Business model aimed at mitigating the effects of climate change and improving the quality of life of people and the environment.

About Banco Fassil
Part of the Santa Cruz Financial Group, Banco Fassil began its activities in 1996, under the name Fondo Financiero Privado and became Banco Multiple in 2014. At that time, the bank began focusing its activities on boosting the development of the entrepreneurial and productive activities of Bolivians by providing integral and integrative financial services to benefit micro, small, medium and large companies through its 525 locations consisting of a central office, 10 branches, 166 agencies and 24 external offices, as well as a network of 325 ATMs in the cities, neighborhoods and populations of the departments of Santa Cruz, La Paz, Cochabamba, Chuquisaca, Tarija, Potosí and Oruro.
Due to its sense of commitment to the country and the regions it serves, Davivienda uses its business model to tackle environmental and social challenges.

Davivienda is aware that climate change is a major disruption, not only for the country, but for the banking sector in particular. Therefore, it has joined efforts to accomplish the goal, set forth by Colombia within the context of the Paris Accords, of reducing pollutant emissions by 20% before 2030. Davivienda currently offers a green line program, whereby it has funded projects amounting to $397 million, supporting sustainable construction and driving water and energy efficiency, as well as clean production, sustainable transportation, renewable energies (mainly solar and wind power), and climate change adaptation projects.

To continue on that path and support the national environmental policy and the Low Carbon Development Strategy of Colombia, Davivienda has taken part in multiple trainings on green financing offered by the IFC Green Banking Academy, which provide information about many of the 100 mitigation options with the potential of being implemented in the most important industries of the national economy and at a regional level.

At the end of 2019, Davivienda received a subordinated loan from the IFC for $335 million, aimed at supporting funding for small and medium enterprises owned by women, social housing projects, and sustainable construction projects. This is the first loan granted by the IFC in Latin America and the Caribbean under the new additional liquidity regulations pursuant to Basel III (new Tier 2), and responds to Davivienda’s plans—which have a scope that goes beyond facilitating sustainable construction and reducing the environmental impact—to promote projects fostering gender equality.

According to UN Women Colombia, despite significant advances made by Colombia over the last decades in terms of promoting gender equality and empowering women, there are still major gaps that ought to be addressed. That is why Davivienda is participating in this important cause, working on a comprehensive business strategy aimed at closing inequality gaps and exploring alternatives with multilateral agencies. “In Davivienda, we work to deliver well-being to the communities we serve. Our commitment to solve environmental and social issues drives us to conduct our businesses seeking to execute initiatives to create prosperity and reduce inequalities,” says Efrain Forero, President of Davivienda.

In an effort to be a part of transit solutions, the Bank has deployed “Davivienda Rides Bicycles” in 3 different cities along with offering spaces equipped with showers, changing rooms, and lockers to its bicycle riding employees, as well as a fleet of hybrid bicycles (electrical) to be shared among employees, as well as a fleet of hybrid bicycles (electrical) to be shared among employees during and after working hours. This program has had a positive impact on the wellbeing of employees and has contributed to the environmental goals of the organization. In 2019, 664 employees completed 19,292 rides, reducing carbon emissions by 23.8 tons. Davivienda plans to roll out this program in 3 other cities in 2020.

Davivienda was acknowledged by the Latin American Banking Federation (FELABAN) and by the IFC, receiving 3 excellence awards in the Green Products and Services category, and it has been included in the Dow Jones Sustainability Index (DJSI) for the past six consecutive years.

Committed to Sustainability

Davivienda contributes to the protection of the environment through innovative community solutions (Flor Davivienda)

With the purpose of creating opportunities for all, Davivienda continues boosting DaviPlata, the solution that democratized access to financial services in Colombia using mobile devices. In 2019 DaviPlata continued being the largest and most innovative wallet in the country, connecting over 6 million Colombians with a value offer that is free of charge and available from any mobile phone. DaviPlata enables the connection between different ecosystems to strengthen the Bank’s partnerships with several allies, promoting financial inclusion and seamless money management.

The organization also contributes to the protection of the environment through innovative community solutions. FLOR DAVIVIENDA is a clear example. It is a system of 12 solar panels that open automatically at dawn and follow the trajectory of the sun throughout the day, turning radiation into clean and efficient energy, producing 32 MWh of clean energy in 2019. It serves the community offering mobile device charging stations in 7 different cities in Colombia. Additionally, thanks to the solar panels installed in the rooftop of its 7 corporate offices, Davivienda produced 59 MWh of clean energy in 2019.

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